



43rd CIAT General Assembly

A Modern Vision of the Tax Administration



Santo Domingo, Dominican Republic
April, 20 - 23, 2009



**Inter-American Center of Tax Administrations - CIAT
General Directorate of Internal Taxes**

43rd CIAT GENERAL ASSEMBLY



**A MODERN VISION OF THE
TAX ADMINISTRATION**

**Santo Domingo, Dominican Republic
April 20 - 23, 2009**



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PRESENTATION OF 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 38 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

**SPEECH BY MR. JUAN HERNÁNDEZ BATISTA
DIRECTOR GENERAL
GENERAL DIRECTORATE OF INTERNAL TAXES**



Mr. Juan Hernández Batista

Mr. William Baker, President of the Board
of the Inter-American Center of Tax
Administration (CIAT)
Mr. Claudino Pita, Executive Secretary of
CIAT
Mr. Vicente Bengoa Albizu, Minister of
Finance
Mr. Miguel Cocco, Director General of
Customs
Honorable Members of CIAT's Board of
Directors

Dear Colleagues,

On behalf of the Tax Administration of the Dominican Republic, we would like to cordially welcome you to this privileged American City of Santo Domingo.

Twelve years ago, this city of Santo Domingo played host to the 30th Meeting of CIAT, where the Documents of Santo Domingo were approved, which established the **Minimum Necessary Attributes for a Sound and Effective Tax Administration**.

These attributes, which establish the importance of: **first**, the integrity and impartiality of a Tax Administration; **second**, the continuity of an adequate Tax Administration; and **third**, the taxpayers' trust, list the fundamental principles that still serve as a guide for Tax Administrations which pursue to be recognized as efficient, effective, modern and professional.

Today's event, titled "**A Modern Vision of the Tax Administration**", is held within the context of a big world crisis, which despite of not being the core purpose of this seminar, cannot be ignored in light of the its highly adverse and profound repercussions on our countries and populations.

In a few months only, the world has witnessed events that few thought could happen. It could be said that the financial imagination got carried far away in its participation in the goods and services markets, so it would not be impolite on my part to say that the presence of regulators seemed to have undergone a Sabbath.

We still have trouble assimilating the celerity with which a problem that originated in one sector of the American economy has extended throughout the world as a consequence of the process of globalization.

The world has seen how we went from a financial to an economic crisis. Not long ago the discussion was focused on evaluating whether the financial world's crisis could extend to the real world. Well, the current forecasts of major funding multilateral bodies show downward projections of the world's economy. Everything seems to indicate that the recession of the world's main economies will persist throughout 2009 at least.

The credit market has toughened given the accumulation of so-called toxic assets, the banks' reluctance to lend and the prevailing uncertainty of investors themselves, added to the reinforcement of prudent regulation, all of which turn access to credit ever complicated, thus affecting productive activities.

Such credit restrictions affect investment and consumption, which added to a loss of wealth resulting from the fall in asset prices, translates into lower income levels in the population. The work market has also been affected, with societies exhibiting ever higher unemployment levels.

In the midst of this context, we should raise awareness of the first step for an effective treatment of a crisis, which is the timely diagnosis and recognition thereof, which should never be equated with pessimism. On the contrary, acknowledging its existence and acting accordingly is an attitude of true optimism, as well as an act of faith in our own ability to overcome difficulties, whichever these are. The attitude we use to overcome crisis, its treatment and our confidence are the only things that can assure success; it is like believing in the boldness of hope - as President Barack Obama said in its reflections upon how to restore the American dream.

I believe that the world's economy is heading towards a profound rearrangement which could eventually bring about a new form of globalization, with a new definition of the market's role and the strengthening of the State's regulatory function. All this will require great

courage to adopt relevant decisions, mostly given that the setting of new moral and ethical standards will be inexorable, for those which prevailed so far are largely responsible for the current crisis.

In our capacity of Tax Administration regulators and supervisors, there are many lessons we could learn, but the challenges and responsibilities we will come across will be greater. The present crisis gives us a good opportunity to reflect upon issues that we can afford to postpone only during good times.

It is a good moment to elaborate on the most adequate composition of local taxes for our economies; that is, what the soundest balance should be among consumption, income and property taxes; the real impact of tax exemptions and reductions as mechanisms to foster investment or private expenditure.

It is a good time to reflect on tax havens and their impact on transparency. This is the reason we are so pleased by the G-20's recent statement addressing this issue.

In this sense, it is encouraging to see that no country or jurisdiction is now included in the so-called black list, which contemplates penalties for the States listed therein; for all the countries that appeared as tax havens have agreed to cooperate with the OECD. Hence, the 84 suspected States have now been included in a grey list awaiting confirmation of their level of cooperation and fiscal transparency.

The other relevant issue addressed by the G-20 relates to the termination of the age of bank secrecy; or in other words, the beginning of the end of the banking secrecy, announced by British Prime Minister Gordon Brown during the press conference offered after the summit. Undoubtedly, this issue will trigger long debates in the tax administrations of all countries. Actually, it all comes down to attempting to conciliate the need of encouraging savings and wealth with the requirement of transparency from economic bodies and the States themselves.

In moments of crisis like this one the importance of having a society with strong and transparent institutions becomes clearer as a necessary condition to achieve and maintain development.

Undoubtedly, for small countries such as the Dominican Republic, the situation is more difficult and complex than that of the countries which originated the current crisis.

So it is our responsibility as tax administrators to guarantee the highest level of taxpayers' compliance with their obligations, obtain the largest possible profitability from existing taxes and wherever applicable enforce penalties, because, this is only way the State can have the minimum resources to fulfill its obligations, contribute to fighting unfair competition in terms of taxes among economic agents and avoid eroding the population's lower income sectors.

Today, CIAT's strategic objective of "Fostering cooperation among member countries to fight evasion and avoidance and any other tax noncompliance" gains greater relevance. So now more than ever this invaluable mechanism provided by CIAT to exchange opinions, experiences and concerns among organizations facing the same challenges, requires enhancement.

Dear friends, during this Forty-third Meeting of CIAT we will discuss the issue of **"A Modern Vision of the Tax Administration"**, and to do so we inevitably need to address the issue of the use of Information and Communication Technologies as a key element to facilitate voluntary compliance, reduce collection costs and reduce taxpayers' compliance costs; but also - and this is something I would like to underline - so that tax administrations can be perceived as more timely and transparent by the citizens.

CIAT's Strategic Plan, within the framework of Strategic Guideline No 5: **Promoting the development of key aspects for the reinforcement of tax administrations, in its Strategic Initiative No 5A** expresses CIAT's will to: identify and promote the use of information and communication technologies to develop the functions of tax administrations of member countries.

Furthermore, CIAT's Environmental Considerations for the period 2007-2010 for the achievement of its objectives, which are part of the Strategic Plan, enumerate two elements concerning the importance of information and communication technologies in tax administrations, and urge to take into account: the impact of globalization and the advancement of information and communication technologies, in economic systems, and their consequences on tax legislation and administration; and the impact of the technological evolution on the tax administrations of member countries.

Therefore, the relevance of the issue of information and communication technologies in achieving ever modern tax administrations apt to respond to the requirements of a society that demands more from its institutions is unquestionable.

We hope that the issue discussed today at this Forty-third Meeting may give you the answers to make our administrations better institutions.

Finally, I would like to reiterate our warmest welcome to you.

It is of great pleasure for us to have you here and we wish you can make the most of your stay and get to know our country, recognized by its history, its beautiful palm-populated beaches, its catchy music and its valuable, essentially hospitable and inarguably happy people.

Thank you.

Sr. Juan Hernández Batista

Director General

General Directorate of Internal Taxes

**WELCOME SPEECH BY
CIAT'S EXECUTIVE SECRETARY
Dr. Claudino Pita**



Dr. Claudino Pita

Mr. Vicente Bengoa Albizu, Finance Secretary of the Dominican Republic; Mr. William Baker, President of CIAT's Board of Directors; Mr. Juan Hernández, Director General of Inland Taxes of the Dominican Republic; other Representatives and officials of the delegations of CIAT's member countries, of international bodies and other tax administrations of friend countries present here today. First, we would like to thank you all for kindly coming here today and welcome you to this General Assembly organized by CIAT.

In particular, we would like to thank the authorities of the Dominican Republic for receiving us again in this beautiful and brotherly country, and to all the officers of the General Office of Inland Taxes who under the intelligent and positive leadership of its Director General, Mr. Juan Hernández, have contributed with their effort to the organization and celebration of this meeting.

The Dominican Republic means something special in the life of our Center. Besides its ongoing support to CIAT's activities and the highly outstanding and valuable engagement of its tax administration officers, the General Assembly held here in 1996 stood as a significant landmark in the life of CIAT and its member countries.

The charter document on "**Minimum Necessary Attributes for a Sound and Effective Tax Administration**" approved and signed then, stands as a guide to encourage in our organizations such relevant values as ethics, transparency and a spirit of service in our communities.

Today we will begin to discuss a key issue: "**A Modern Vision of the Tax Administration**", from three perspectives:

First, **the role and use of Information and Communication Technologies** by the Tax Administration, allowing it to carry out its actions with increased effectiveness and efficiency.

Then, a recurring issue discussed at our meetings, **the strategy for promoting voluntary compliance**, is now renovated with an approach that incorporates a new element: the application of the "subjective benefit".

To conclude, we will discuss **the strategies and instruments and the use of technology**, not only to facilitate financial and budget management, but mainly to provide such management with total transparency apt to assure permanent accountability.

A concern we believe cannot be left out, and which will surely be repetitively raised in our discussions, is the economic situation in the current world context and its impact on public finance and tax administrations, placing us in a well-known uncertain position.

The risks resulting from the current situation may vary in nature and intensity from country to country; however, in one way or another we will all be affected by it, so it is imperative to find cooperation structures and coordinate policies intended to bring the opportunity to develop a more stable and fair economic order. Among such risks stand out recession and its resulting unemployment which, in addition to causing social deterioration, may pave the way for a return of protectionism.

Nowadays, the search of global solutions is led by the **G-20**, which held a summit meeting in London last April 2. This Group is composed of 19 countries and the EU, and although there are 170 countries left out of it, it may be regarded as having some north-south representation that legitimates its proposals and actions.

Among the considerations contained in the **"Global Plan for recovery and Reform"** approved by the G-20, there is the recognized need to strengthen financial supervision and regulation, whose flaws, argued the G-20, were the main causes of the crisis.

Maybe, the exacerbated neoliberal enthusiasm for the financial system deregulation started fairly long ago, failed to measure its consequences properly and forgot that the main architect of such school of thought, Adam Smith, was an ethics professor before becoming the famous economist. Let me retell you a short personal story that may illustrate these considerations.

Some years ago, when the deregulation frenzy and the creation of derivatives and other sophisticated and dull financial products started, a friend of mine who worked as a Legal Director for an important bank told me that he had just attended the Board meeting in which the Executive Vice President presented what would become a novel financial product

to its clients, after which he asked my friend what he thought about it. My friend simply answered that "this is not a new product; it has long been in the Criminal Code and is called FRAUD".

Among the considerations incorporated into the above cited the **G-20's Plan**, those relative to restoring growth and employment through fiscal expansion would be those most closely tied to public finance.

A notable initiative of this Plan, related to the expansionist proposal, is to promote the reinforcement of global financial institutions by providing them with additional resources to support growth in emerging and developing countries, helping them to finance anti-cyclical expenditure policies, recapitalize banks, undertake infrastructure works, finance trade, support the balance of payments, pay off debt and develop social support policies.

The fiscal aspect of the strategy could be seen as reviving some Keynesian ideas, in that many of the proposals - especially the concerns focused on curbing unemployment- are intended to act on the aggregate demand, based on two pillars: the first one, an expansionist expenditure policy; and the second one, the impact of such policy on economic agents' expectations, favoring a vision of encouraging recovery of private investment.

There is no doubt that a fiscal policy can underpin the economic recovery through a variety of instruments, such as direct incentives and automatic stabilizers. Even when such support is essential to drive the aggregate demand and limit the impact of the financial crisis on the real economy, an inadequate management of these instruments may seriously compromise the sustainability of public finance.

As indicated in a note by the IMF regarding a meeting of the G-20, nearly half the member countries of this Group announced important cuts in personal income taxes, whereas nearly a third announced reductions in indirect taxes. At the same time, roughly half of them intend to cut down corporate taxes. Three quarters announced plans to increase expenditure in infrastructure, largely transportation networks.¹

¹ *Group of twenty - Meeting of the Deputies, January 31-February 1, 2009 - London, U.K.
Note by the Staff of the International Monetary Fund*

At any rate, it is positive to remain aware that unless a global solution is found, any one, the world could enter a period of turbulence and confrontation of policies, so we should remember what Paul Krugman once pointed out: "sometimes the necessary changes are hindered by dogmatic doctrines deriving from obsolete orthodoxy".

As a corollary for tax administrators, the news does constitute a real challenge: to face tax base reductions in light of discretionary measures or recession and, at the same time, generate resources apt to sustain the funding of expenditure expansion and a growing debt service.

Alternatively, even if tax administrations are free of presumable budget cuts, the fact that several of them finance part of their activity and/or investment with funds deriving from a percentage of their collection also implies a risk in the event of a foreseeable fall in collection.

Also, in view of the financial situation affecting a great number of taxpayers and the potential growth of informality, the next challenges in connection with compliance will be greater.

As we pointed out in previous opportunities, the group of tax administrations of CIAT member countries has undergone significant strengthening and modernization, incorporating a wide spectrum of information and communications technology applications and, in particular, becoming aware of the fundamental role of human capital to achieve and sustain their progress, and the resulting need of providing conditions for the ethical and technical development of their officers.

This last fact allows us presuming that even though the challenges brought about by the current world context are big, the maturity achieved by many tax administrations will allow them to face them successfully, although not without a considerable amount of effort. In any case, it is indispensable that governments should be aware of the strategic role played by these organizations, particularly in situations of crisis such as today's, and give them total support.

Everything points to the need of including as soon as possible in CIAT's agenda the discussion of the current crisis from the perspective of tax administrations.

Undoubtedly, CIAT, as the largest and most traditional forum for discussion and exchange of experiences in tax administration matters, is the adequate vehicle for identifying strategies and practices that may help face the new challenges.

To conclude, we would like to reiterate our recognition and gratefulness to the Dominican authorities, our cordial hosts, and to all the attendees for kindly accompanying us at this Meeting.

We would also like to express our recognition and gratefulness to all our member countries for their valuable and constant support, which added to the outstanding team of people working at the Executive Secretariat - to whom we also thank and congratulate them for their professionalism, spirit of service and commitment to our Center -, who have made and make it possible for us to fully perform the mandate stated in our bylaws: fostering an environment of mutual cooperation and providing a forum for the exchange of experiences, all within a context of fraternal friendship and mutual respect.

Thank you very much and have a happy and enlightening Meeting.

Dr. Claudino Pita
Executive Secretary
Inter - American Center of Tax Administrations - CIAT

**OFFICIAL PHOTOGRAPH
43RD CIAT GENERAL ASSEMBLY**



Santo Domingo, Dominican Republic
April 20 - 23, 2009

INAUGURAL CONFERENCE

**A MODERN VISION OF TAX ADMINISTRATION IN THE
CURRENT ECONOMIC AND SOCIAL CONTEXT**

Inaugural Conference

**A MODERN VISION OF TAX ADMINISTRATION IN THE
CURRENT ECONOMIC AND SOCIAL CONTEXT**

Parthasarathi Shome

Chief Economist
HM Revenue and Customs
(United Kingdom)

SUMMARY: Executive summary.- 1. Introduction.- 2. Information and communication technology.- 2.1 Adoption of ICT systems.- 2.2 Case studies - adoption of ICT systems.- 2.3 Analytical capability.- 2.4 Case studies - analytical capability.- 3. Customer focus. 3.1 Case studies - customer focus.- 4. Management and structure.- 4.1 Case Studies - management & structure.- 5. Tax Administration in the current economic and social environment.- 5.1 Changes in revenue.- 5.2 Changes in operational workload.- 5.3 Changes in compliance.-6. Concluding remarks

EXECUTIVE SUMMARY

I am delighted to have been invited by CIAT to deliver the keynote speech in this august Assembly among many friends. Many years back, I gave a similar talk at a CIAT General Assembly in Montego Bay on trends and future directions in tax policy in Latin America. Today, in Santo Domingo, I have been asked to talk about a modern vision of tax administration. This I find to be fully complementary, a full circle completed after some 15 years!

I have taken CIAT's well written guidance paper as my starting point, emphasising my own findings and observations, while using examples from selected tax administrations in countries in different stages of economic development, and different phases of growth dynamism. Within such a framework, my paper encapsulates some of the central issues currently facing modern tax administrations. The key points are as follows:

- Up to date Information and Communication Technology (ICT) must form a central part of any modern tax administration. It offers an important opportunity to reduce processing costs; enables the effective use of data and information; and, allows the tax administration to reflect the changes in communication adopted in many parts of society.
- An expansion in analytical capability should form a central role in taking advantage of ICT. It allows the transformation of data and information made accessible through ICT systems to knowledge - a resource that can be used for another purpose. This will help to improve policy development as well as internal management decision making.
- There are risks posed by the use of ICT by tax administrators. This includes data security risks and problems with large scale public procurement. However, these risks are being actively managed by many tax administrations and the diffusion of best practice will aid in this.
- A central focus for modern tax administration must be on the taxpayers themselves and the quality of service provided to them. This is fundamentally about moving to a more open and trusting relationship between tax administrations and their "customers" that should engender more voluntary compliance.

1. INTRODUCTION

This paper summarises some of the key issues facing modern tax administrations. Whilst a full review of any one of the issues could take significantly more space than is available here, it tries to highlight the most salient points with potential value for all tax administrations to consider. To further expand upon the points made, illustrations are drawn selectively from tax administrations in three representative economies - Brazil (middle income, medium growth), India (developing, high growth) and the United Kingdom (advanced, low growth). They reflect my own experiences and should not of course be attributed to any government, institution or individual unless mentioned.¹

The paper is divided into four central sections as follows:

- Information and Communication Technology
- Customer Focus
- Management and Structure
- Current Economic and Social Environment

¹ *Comments are welcome at parth. shome@hmrc.gsi.gov.uk*

These are followed by brief concluding remarks. It should be noted that the views expressed are those of the author and do not necessarily represent the views of HMRC or any other organisation or individual unless specifically mentioned.

2. INFORMATION AND COMMUNICATION TECHNOLOGY

This section is divided into two parts. The first reflects on the adoption of ICT systems, in particular the benefits and risks associated with this. The second looks at the benefits of adopting an analytical capability within the tax administration.

2.1 Adoption of ICT Systems

ICT offers two direct benefits to modern tax administrations:

- **Increased operational productivity**
The benefits of ICT and modern technology have been self-evident in the global economy. In the same way, modern tax administrations must take advantage of the benefits offered.

For example, the ability to store vast amounts of data in a single electronic database reduces storage costs, the processing of electronic returns is faster and cheaper, modern call-centres can take advantage of automated services reducing costs further whilst the geographical mobility of information enables more effective coordination between offices.

- **More efficient ways of communicating with taxpayers**
Technological development also opens up new routes of communication between a tax administration and its taxpayers. This can take a variety of forms including online guidance, e-filing or automated telephony systems. It is essential that a modern tax administration takes advantage of these opportunities - not only as it offers productivity benefits but to provide a greater range of access to taxpayers.

It is also essential that a modern tax administration continues to look forwards, the pace of development in communications technologies means that new opportunities are consistently arising - could better guidance be written collaboratively with taxpayers in a similar fashion to Wikipedia² or could information be spread more effectively using pod-casts?

² *This is a free online encyclopaedia written collaboratively by volunteers and specialists from all over the world using a form of software known as a "wiki". See: <http://en.wikipedia.org>*

However some large risks are also generated with the use and, in particular, the procurement of ICT systems. These need to be actively managed to avoid disruption to the tax administration service.

A key difficulty is procuring the services in the first place. There are first the onerous requirements of the public sector tendering system. Often there is a lack of competition amongst ICT companies that are large enough to fulfil a government contract of the size needed by many tax administrators. On top of this, there is an element of non-transferable risk whereby governments are always held responsible for the failure of a private company to fulfil the IT contract. Adding these factors to the need for flexibility in contracts to enable future innovations in the rapidly moving ICT market creates a situation whereby high prices and poor service are not necessarily punished by market forces.

Another risk is that of data and information security. Tax administrations receive a vast array of information about individuals from bank details to addresses. Modern ICT enables this information to be held for a vast number of people in a single database. If somebody should gain wrongful access to this kind of information then it opens up the possibility of fraudulent activity. Additionally, should systems fail, are they suitably backed-up to ensure there is no loss of data? Are there Business Continuity and data recovery arrangements in place?

Finally, a heavy reliance on ICT and modernisation could leave sectors of society excluded such as the small business sector or senior citizens. Actions must be taken to provide support for those segments of society that feel less comfortable with the use of modern technology.

Nevertheless, despite the risks that have been highlighted, it would be hard to argue that the costs outweigh the benefits. The practical case studies provided below demonstrate how benefits of adopting modern ICT are numerous whilst the risks can be managed. It is clear that a modern tax administration must embrace ICT and take full advantage of its benefits. Needless to say, these illustrations reflect my own visits, analysis, experiences and conclusions therefrom, over the last two decades. However, if there remain misperceptions on my part, I shall of course be glad to be made aware of them by those who are presently closer to these systems.

2.2 Case Studies - Adoption of ICT Systems

The case studies in this section focus primarily on tax administrations in Brazil and India due to the former's use of state-of-the-art technology and the dynamism with which the latter is embracing ICT systems.

BRAZIL

Perhaps the most observable aspect of Brazil³ in terms of the function of transactions in its economy is that it has transformed itself into what could be called an IT, as opposed to a cash, economy. A credit-cum-debit card is utilized for all intents and purposes, providing speed, security, and an information trail. The use of cash is minimal. A single identifier is used for individuals - not only for tax purposes but also as a general identification tool for most transactions.

This use of ICT is reflected in tax administration too. More than 98 percent of 52 million individual annual tax returns are filed electronically, (though less than a quarter of periodic payments are electronic). In Brasilia the Federal Revenue Secretariat (SRF) has paperless offices. A Division Chief sits in the same office with the staff of his Division at their respective computers, where all information and analyses are maintained. SRF offices throughout Brazil are internet connected. Each officer can log on not only from his office computer, but also from his department-issued cell phone, into the data base including individual taxpayer information, with strict access codes and penalty provisions for misuse.

Brazil has developed a strong relationship between SRF and its IT service provider SERPRO. SRF's main interface with SERPRO is COTEC, the Coordination (Department) in charge of Systems. In effect, SERPRO has to consult COTEC on most major matters. For example, SERPRO's annual budget is negotiated between the two. The availability of funds from COTEC determines the possible expenditure and, therefore, the nature of hardware that SERPRO could provide. However, there is no staff member directly from COTEC in the SERPRO Board (though there is representation from the Ministry of Finance).

While there is close linkage between SERPRO and COTEC, other departments of SRF such as those in charge of tax forms, collection or audit/scrutiny also regularly utilize SERPRO for software design and development. In turn, SUNAT is SERPRO's department that mainly interfaces with SRF's COTEC. SUNAT maintains 750 systems for tax declarations, collection, and audit. One SUNAT section, for example, focuses on integration of processes; and investigation of misuse of processes.

³ *Acronyms used widely in Brazil include:*

- *SRF is the Federal Revenue Secretariat, comprising both direct and indirect taxes; and soon to include the social security administration;*
- *COTEC is the "co-ordination" (director general) at SRF, that is responsible for information technology (IT) matters.*
- *SERPRO is the public sector SPV that is the primary IT service provider to SRF.*
- *SUNAT is the department at SERPRO that interfaces closely with COTEC.*

COTEC has several units that interact with SERPRO units in one way or another. COTEC hires officers as "business analysts" who have passed examinations based on project management, information technology, and COTEC policy. There is no maximum period of stay at COTEC or in any particular units of COTEC. COTEC undergoes, from time to time, a specific selection process for IT-oriented recruitment, for example, in 2006, for 300 new staff. Thereby, IT staff at COTEC headquarters increased from 100 to 150. The others were placed by COTEC in the 10 regional centers that, in turn, supervise 700 smaller units across the country. These overall interconnected arrangements manifest the extensive reach of ICT in the Brazilian tax administration.

COTEC units include:

- administration of norms and patterns: develops methodology and guidelines;
- organization process model: develops systems, checks how systems are responding to demands, and develops work-flow charts for the federal government;
- technology prospectus and new technology: has been responsible for the new Systems Integrator initiative and cell phone/voice access to the SRF network by officers;
- infrastructure: in charge of maintenance of network connectivity of 700 SRF offices and accommodates 30,000 end-users (including SRF officers and outsourced persons); uses corporate management software (TIVOLI) enabling connectivity to any part of the country within 10 minutes; Of course, as may be expected in any such large operation, one challenge is to minimize any duplication of functions or operations between COTEC and SERPRO.
- contracts and agreements: in charge of technical contracts; oversees data exchange agreements among units that use fiscal information, using also external legal advice. Instructs SERPRO to send data. 88 percent comprise routine transfer of daily/weekly/monthly information; 9 percent are on-line requests; and 3 percent are specific queries requiring detailed reports. In 2006, there were 64 agreements (7% private sector; 93% public sector, of which 55% municipal, 26% state, and 19% federal). As a result, some 600 government and private entities receive data.

A major advancement in SRF and SERPRO policy is the tendering process for public sector projects. Tendering, bidding and selection are all electronic, without any interface between government officers and the private sector. This has reduced procedural costs by 20 percent. Time taken for the completion of the tendering process is 3-5 months, with further ambitions to reduce this.

INDIA

A visible repackaging of overall tax administration, reflective of rapid introduction of ICT, has ensued in India. Comprehensive computerisation/hardware and use of integrated software are the main components of this strategy. Nevertheless, challenges remain. For example, unlike in Brazil or the U.K., it is not customary to employ IT specialists directly from the private sector in the tax administration. The IT directorates for both direct and indirect taxes have to place internal revenue officers to man the offices. Of course those with an engineering bent of mind may be selected but this limits the challenges faced by officers to the external IT profession as well as the distance that can be travelled in rapid policy formulation or implementation.

Within the overall limitations, a great deal has been achieved through ICT. On the income tax side, the number of individual taxpayers has jumped from 15 million in the mid-1990's to 35 million currently. Indeed, given the size of the administration, a higher number would not be easy to handle though a broad estimate of a potential 50 million taxpayers is realistic. While self-assessment is in vogue, a downloadable SARAL (Easy) form has been introduced. Electronic filing is now compulsory for corporations and firms; and high income individuals are encouraged to file electronically. E-filing of TDS returns has also been made compulsory. SUVIDHA (Convenience) is the form for bulk filing of salary returns by employers. SAMPARK (Interface) is an easy return preparation software. Computerised processing of returns and issue of refunds is stipulated within 4 months based on an electronic clearance system (ECS) for issue of refunds.

Audit is based on computer assisted selection of scrutiny cases, based on annual information returns (AIR) from six major third party sources such as bank accounts, mutual funds, property transactions, credit card usage and others. These transactions all have to use the tax identification number i.e. personal account number (PAN). Special software has been developed to weed out duplicate PAN's and the judiciary has been involved for PAN misuse. The exact formula for scrutiny selection has not been made available to even senior officers who are not in the direct line of business.

What is being achieved is an integrated IT framework: a Systems Integrator, together with a National Data Centre in Delhi; a software enabled Business Continuity Site in Mumbai, supported by a Disaster Recovery (data repository) Site in Chennai. The outcome is a Tax Information Network (TIN), enabling 12,000 offices nationwide, even in the far reaches of India, to get connected; and 4,500 officers can simultaneously access TIN. Obviously a programme has been introduced to get the officers trained at a rapid speed.

Mention must be made of indirect taxes where also a comparable Systems Integrator strategy is being pursued based on the knowledge base derived from the income tax side. In Customs, an electronic data interchange (EDI) system to file customs documents electronically and assessment of these documents through computers has been introduced in 25 major customs stations. In the Excise department, ICT has enabled simplification of excise registration procedures, dispensing with the filing and approval classification and price list, introduction of a self-assessment procedure, abolition of statutory hard copy records and acceptance of an assessee's own private records, thus reducing compliance costs. In turn, the number of Central Excise Rules has been drastically reduced from more than 200 rules to about 30. Thus, overall, the benefits from ICT cannot be minimised even in developing country tax administrations.

At the level of Indian states, the role of ICT in VAT administration is also important. While each state has devised its own ICT system contracting different private sector providers, an issue remains about how inter-state trade will be monitored with the help of ICT. A system called TINXSYS is being developed for this purpose. The challenge is that a tax on interstate trade (CST) is to be phased out completely on April 1, 2010. While it is a cascading tax since it does not give input tax credit in the importing state for tax paid in the exporting state, CST does provide an administrative proxy for controlling fraud since it registers the quantity and value of interstate trade. When CST is removed, this benefit will become nonexistent. Therefore, the need for a fully functioning system such as TINXSYS cannot be overemphasised. Little time remains.

The central government undertook a VAT computerisation project as a turnkey project for a group of six states in the North-East of India. It has been quite successful in not only introducing computerisation for their VAT's, but also to put in place control mechanisms for their interstate trade. Its progress is being monitored. The overall environment is complex, providing an array of challenges to both the officers and the private sector provider.

UNITED KINGDOM

HMRC has adopted a base of ICT usage including a selection of databases for different taxes. It is poised to make a further push to integrate the different systems it currently has and further improve its infrastructure while, as may be anticipated in an advanced system and high costs, financing massive changes has to be considered with due diligence.

One of the most interesting features of HMRC's data and information management strategy is the way it uses this information in an analytical way to inform the development of policy as well as internal administrative decisions. This is further expanded upon below.

To help handle the risks associated with ICT procurement, the Office of Government Commerce oversees procurement activity of government departments. Whilst not getting directly involved it audits past activity and spreads best practice with respect to tendering and contracting. This provides support to arranging large government contracts such as those required for HMRC's IT.

HMRC also takes a strong line on data security. Staff must all attend workshops highlighting their role in preventing data falling into the wrong hands whilst access to portable media (CDs and USB devices) is restricted. Any transfers of large amounts of data between directorates or to external agents are subject to a screening process led by a specialist in data security.

2.3 Analytical Capability

The capture and storage of tax administration data using ICT creates a large and valuable analytical resource. Modern tax administrations should exploit this resource both directly by employing analytical specialists as well as, within the limits of respecting taxpayers' privacy and security, indirectly by providing data and information to external analytical groups. This is essentially about converting data or information into knowledge that can be used for another purpose.

The knowledge gleaned from the data can then help tax administrations in a wide range of ways, for example: informing policy development; helping to manage compliance risks; or, identifying ways of improving internal processes.

The effectiveness of this analytical capability will be strongly influenced by the structure of the underlying ICT systems. Is the data stored across several different systems? Is there a way of easily identifying taxpayers across tax boundaries? What demographic information is stored for each taxpayer? The better linked up a system is, the more complex analysis can be completed.

2.4 Case Studies - Analytical Capability

INDIA

India's analytical capability is at a nascent stage at both central and state government levels. A small group of officers carries out top level analysis and, to a great extent, also the legislative formulation of both direct and indirect taxes at the central government level. Similar is the practice at state level. The use of simple econometric models for revenue projection has been initiated about four years back, though a specific structure to advance this does not yet exist. The bulk of officers are assigned to the administration function. Thus, in contrast to about 20 officers who carry out these tasks in India, the comparable size in the U.K. would be around 500.

However, some analytical capability also resides in a few offices. For example, increasingly, re-engineering of business processes through functional specialisation is being enhanced—an international taxation directorate that focuses on transfer pricing and arms length issues, a directorate for tax treaties, large taxpayer units in large cities, and so on.

This can be stepped up in the future only with the upgradation of skills of employees through revamping national training curricula for entering staff of both direct and indirect tax services, as well as continuing education for senior officers at the national training schools.

Another challenge has been the fostering of specialisation. While in advanced tax administrations, transfer pricing or tax treaties would be typically considered as specialised fields in which an officer would be allowed to specialise throughout an entire career, India's revenue services are considered to be national in which officers are transferred approximately every 3 years across a broad spectrum of cities at varying levels of convenience or hardship. This is to maintain equity across employees but renders specialisation difficult. It has to be appreciated that, throughout India's modern history, her primary national strategy, goal and challenge have been to remain cognizant and alert to matters of equity, regional parity and redistribution. Specialisation as an objective has had to be considered in that overall context.

UNITED KINGDOM

In the U.K., the development of policy is shared between HM Treasury (HMT) and HMRC by reference to a Policy Partnership arrangement, with the former responsible for strategic development of new policies and the latter responsible for maintaining the current tax regime.

At the heart of analysis of tax policy is an HMRC directorate called Knowledge, Analysis and Intelligence (KAI) where the Chief Economist resides. KAI has a team of around 500 analysts responsible for managing, developing and presenting data, analysis and evidence to support the formulation of tax policy as well as for internal HMRC administrative decisions. It employs a range of specialists including economists, statisticians, operations researchers and social researchers (with a Head of Profession for each stream) to complete, as well as commission from external sources, both quantitative and qualitative analytical work.

For every possible change to tax policy considered, an analyst will be involved to review effects including: revenue impacts, compliance costs, administrative burden, and effects on the wider economy. This evidence is then presented to Ministers to enable them to formally weigh up the costs and benefits of possible policy options. A summary of the cost-benefit analysis and supporting

evidence is published following the initiation of a public consultation or the introduction of a new policy in what is known as a Regulatory Impact Assessment. As a result, every aspect of tax policy design is subject to minute analytical exercises, followed by discussion and debate between various policy directorates in HMRC and HMT. The process continues after a policy is announced in the Budget usually in March in order to track the wider ramifications of a Budget measure.

There is a specific focus on measuring the compliance cost and administrative burden for every tax - essentially the costs to businesses of complying with a tax. Each burden is modelled using a Standard Cost Model that was originally pioneered in the Netherlands and Denmark. It breaks down every tax return into individual pieces of information required and then assigns a population of businesses the need to produce that information and a length of time required to complete that specific obligation. Whilst populating the database is relatively costly and prone to some error, it offers a valuable way to capture and model changes in administrative burdens placed on businesses due to a tax change.

There is also a mini-Budget so to speak, called the Pre-Budget Review (PBR) in November-December that enables policy change in mid-year. For example, at PBR 2008, the Government announced plans to exempt foreign dividends received by large and medium companies. A central estimate of the impact of this on tax revenues is published in the main Pre-Budget Report⁴. This includes an assessment of the behavioural response expected from firms based on evidence from academic articles. In addition to this, the Regulatory Impact Assessment⁵ explains the methodology for quantifying the changes in administrative burdens and compliance costs for businesses and summarises this alongside qualitative assessments of other costs and benefits. Further, as a part of a fiscal stimulus package, the VAT rate was reduced from 17.5% to 15% for 13 months beginning December 2008. This too was preceded by detailed analysis and calculations by HMRC and HMT teams, and post-implementation analysis is ongoing.

Research from external analytical units is also commissioned to broaden the knowledge base available for policy development. To further encourage external inputs, HMRC is developing a "datalab". This is a secure database which academicians and research institutions will be able to apply for access to pre-specified, policy-relevant analytical projects using a full set of HMRC data (albeit, anonymised).

⁴ http://www.hm-treasury.gov.uk/prebud_pbr08_index.htm *Tabla B5*

⁵ http://www.hm-treasury.gov.uk/d/foreignprofits_impactassessment111208.pdf

This emphasis on evidence based policy, and publication of details relating to it, provides credibility to policy commitments, improve transparency and generate a bench-mark from which the policy could be evaluated in the future. Fundamentally, it is about ensuring that Government decisions are as well informed as possible.

3. CUSTOMER FOCUS

A key element of the strategy for any Modern Tax Administration has to be "Customer Focus". Here, "customer" refers to any individual, business or agent that has a relationship with the revenue authority, whilst "focus" captures a wide range of activities designed to improve experiences of the tax service.

Elements of such a strategy should include:

- **Simplify tax structure for small taxpayers**

To begin, customer focus should have a two-pronged strategy, covering both tax structure and administration. Typically most countries tend to have a simplified structure for small and medium taxpayers. Thus a VAT tends to have a threshold below which a business does not need to register; and, above that there is another threshold below which a taxpayer would need to register but would pay VAT on a "compounded" or turnover basis i.e. not on the basis of detailed accounts using the debit-credit mechanisms. Other simplification structures also exist in most countries for administrative convenience, though tax policy analysts tend not to be fond of them since they tend to modify the objective of the original tax structure in terms of efficiency of the country's resource allocation among economic sectors..

- **Understanding taxpayer motivations**

Tax administrations need to move beyond the premise that everyone is naturally inclined to avoid paying taxes. A recognition is required that individuals and businesses have a complex set of motivations that are strongly affected by the actions of the tax administrations, legal framework, as well as societal norms and economic incentives.

Amongst these motivations is often a social duty to "do the right thing" - effectively to pay taxes legitimately, albeit with the occasional accidental error. Tax administrations need a legal and applied framework to act to reward these positive behaviours and differentiate between honest mistakes and aggressive avoidance or evasion activity. This will have the benefit of encouraging more voluntary compliance - reducing costs to the administration.

- **Improving the service provided to taxpayers**

Lowering the effective cost for people to comply with taxes make it more likely they will do so. The areas considered should include: reducing the costs of submitting tax returns by using online filing; making it easier to find information about obligations through better website design or a more cooperative approach from call-centres; reducing costs of uncertainty by providing clarity of tax obligations in advance of large, complex transactions; or, decreasing the costs of understanding the tax system by simplifying tax codes.

- **Engaging with customers**

This is about opening up two-way communication between the tax administration and customers. This helps to improve perceptions of the tax authority as well as playing a key role in identifying problems with the tax system and finding effective solutions. This could take the form of industry forums, meeting account managers for major tax payers, public consultation for proposed changes or independent reviews of the tax system.

These actions help to improve value for administrative resources and instil fairness into the tax system. However, a difficulty still remains in drawing the line through the hazy barriers between tax planning (activities that reduce the tax liability but remain within the intent of law) and avoidance (activities that reduce tax liability but that are against the spirit of the law) or evasion (illegal).

A functioning "risk-based" approach to tax returns can play an important role in identifying avoidance and evasion schemes quickly, providing certainty as rapidly as possible to the taxpayer and reinforcing positive customer behaviours. Essentially this is an approach whereby a skilled tax professional quickly reviews returns, e.g. for a business, and rates them according to how much risk they pose to revenue, based on the structure of the business's tax affairs. A business with a low risk score then receives fewer requests for information, audits and a generally more positive approach to the relationship. A business with a risk score draws more attention to detail and receives more invasive demands for information. This helps to incentivise voluntary compliance and tax transparency whilst warning those businesses that push the boundaries between tax planning and aggressive avoidance or evasion.

However there likely will remain some individuals and businesses that are inclined or keen to exploit the tax system - actively looking to avoid or evade the tax they owe. In particular there has been a rapid expansion of the use of **aggressive avoidance schemes**, devised and vigorously marketed by tax

consultancies/ advisers to large businesses or high-income individuals. Attempts to combat these schemes by identifying and legislating against particular legal loop-holes have resulted in increasingly long and complex tax codes. This additional complexity provides further opportunity to find new loop-holes and generates new schemes, resulting in a spiral of increasingly complex and difficult to understand tax codes. It is naturally a waste of a tax administration's scarce resources, while making it harder for those taxpayers that want to understand the law and comply with it.

"Principle based legislation" offers one possible method of resolving this situation. This is law that embodies a principle of taxation, probably accompanied by a statement of how legislation intends to operate by reference to that principle. This results in a broader interpretation of the laws that could help to prevent "to the letter" interpretations and avoidance schemes. The challenge is to design such laws to work in those judicial systems that are not used to a principle-based approach in such a way that provides certainty to taxpayers about what is required of them⁶.

Overall, customer focus cannot be neatly defined - in practice it captures a wide range of different activities for tax administrators. It is effectively about a change in attitude and an attempt to "see things from the other side". However, not only does it offer benefits from the point of view of tax administrators providing value for money for society but, from the tax administrations view point, it offers cost savings by encouraging voluntary compliance, reducing mistakes as well as quick identification and resolution of problems. Any modern tax administration should start by building its strategy around its customers.

3.1 Case studies - Customer Focus

BRAZIL

Perhaps the most direct example to address customer interests in the Brazilian tax structure is SIMPLES, its system for taxing small and medium enterprises. It is cast in the background of Brazil's regional disparities: the 3 wealthiest states account for 53% of GDP, while the 3 poorest for 0.55% of GDP. In the backdrop of a total population of 180 million, there are 3 million companies. All three stages of government-federal, state, local-have the power to tax them either through profit, turnover, value added or some variant of value added.

⁶ Freedman, J., Loomer, G. & Vella, J. (2008) "Alternative Approaches to Tax Risk and Tax Avoidance: Analysis of a Face-to-Face Corporate Survey" Oxford University Centre for Business Taxation, Working Paper 08/14.

The complex and confusing interplay between a range of taxes, a range of tax bases with payments required for a range of administrative entities resulted, in 1997, in the creation of SIMPLES. It is not a tax per se but a unified system of tax payment. Its features include:

- A unified tax base of a maximum turnover of US\$ 1.1 million (and US\$ 60,000 for micro enterprises) p.a. are included in SIMPLES;
- it has a progressive tax rate structure; as a result, different turnover thresholds for different groups should not be needed;
- the rates differ according to economic sectors;
- it includes social security payments-employer pays 20% of payroll; employee pays 7-11 % subject to a limit⁷;
- exports are partially exempt from SIMPLES.

The system is purported to smoothen the transition to the normal tax system for smaller taxpayers. SIMPLES allows a wide range of taxes to be made through one single payment, the base being the same, the rate varying between 4-18% depending on the turnover.

From the business's perspective, SIMPLES:

- reduces the overall tax burden;
- reduces compliance cost;
- stimulates them to operate legally;
- encourages them to employ from the formal sector since social security payment is not on payroll basis, but is based on overall turnover;
- simplifies their interface with tax administration since, instead of three levels of government, they encounter one consolidated level.

From the perspective of tax administration, SIMPLES:

- reduces processing cost;
- reduces cost of controlling the SME sector;
- fosters exchange of information among the three levels of government;
- encourages spontaneous compliance by reducing the tax burden, i.e. reduces tax evasion and, thus, expands the tax base.

Further refinements have been made in 2006 to try to maintain consistency in treatment across geographic regions with the prevailing view being that the simplifications brought about by SIMPLES have resulted in more small businesses moving from the informal to the formal sector.

⁷ 11% is approximately equivalent to 10 minimum wages.

While using SIMPLES as an example for customer focus, it has to be mentioned that SIMPLES is generally considered to be a complex overall structure to administer. It perhaps provides an interesting example of a toss-up between customer facilitation and administrative facility.

INDIA

The advent of ICT has enabled various new services for both large and small taxpayers, for example, improving taxpayer services through Large Taxpayer Units (LTUs) in 4 cities, and numerous small taxpayer returns preparation centres with download facility for return forms. Recent undergraduate students have been selected and trained as participants to help fill returns for small taxpayers.

Taxpayer assistance services through taxpayer assistance brochures, an informative website, and an interactive voice response system in selected cities have been introduced albeit with teething problems.

While a list of such measures may be cited on an ongoing attempt to provide customer service, a more intrinsic effort, based on structural pillars, may be needed to move the concept of customer focus into centre stage as has been achieved in the U.K. For this, first, recognition of the issue and, second, adequate allocation of funds are essential, as in the case of introduction of ICT in India's tax administration.

UNITED KINGDOM

The "Review of Links with Large Business"⁸ provided a starting point for better engaging customers. It concluded that businesses wanted a more open and trusting relationship with HMRC.

HMRC responded by introducing Customer Relationship Managers (CRMs) for each of the 700 largest businesses that pay tax in the UK. Each business is allocated a CRM who becomes their first point of contact, developing an in-depth understanding of their tax affairs at a working level and playing a key role in identifying any areas of tax uncertainty and risk. The Large Business Service directorates are categorised by sectors such as IT & Telecom, Banking, Insurance, Oil & Gas, Local Authorities, Charities, and others to further engender development of specialist skills and knowledge.⁹

⁸ HMRC (2006) "Review of links with large business" available at: <http://www.hmrc.gov.uk/large-business/review-report.pdf>

⁹ HMRC (2006) "Working with large business" available at: <http://www.hmrc.gov.uk/lbo/operating-model.pdf>

Additional channels of communication have been opened in the form of a series of Industry Sector Leaders as a point of contact for senior managers, forums for industry representatives, discussions with trade representative bodies and customer surveys.

This has helped to identify and implement improvements in 5 key areas:

- **Providing greater certainty of tax liability**

HMRC has introduced a team of specialists known as the Advance Agreement Unit that work in real time with businesses to give tax certainty in advance of large inward investments (greater than £250 million).

The process for providing tax certainty (known as clearance) on areas of material uncertainty has been expanded, provided the issue raised is "relevant and focused", has a "great impact" on the business and concerns legislation from within the last 4 years for Indirect Taxes. This can now normally be completed within 28 days.

- **Introducing a more efficient "risk based approach"**

CRMs conduct a risk review of large businesses' returns. This involves rating companies for different features of their businesses according to the tax risk that they pose. This is then summarised into an overall "risk rating" of either high or low. Those companies that attain a low risk rating would tend to receive a lower volume of HMRC interventions such as tax audits and requests for information as well as a more positive approach to the relationship. This explicit definition of the benefits of being "low risk" acts to recognise and then reward positive behaviours by firms¹⁰.

Additional expertise, resources and guidelines have also been allocated to improve the service provided to high risk corporate entities. This includes specific project managers for resolution of discrete areas of high uncertainty and disclosed avoidance schemes.

This is a similar system to the US's "Compliance Assurance Programme" (that has received mixed results due to an unwillingness to fully reveal the nature of transactions), Australia's "Annual Compliance Arrangements" process for the 50 largest firms and the Netherlands' "horizontal monitoring". It could be beneficial to discover best practice from this range of schemes to help inform future developments.

¹⁰ HMRC (2007) "HMRC approach to compliance risk management for large businesses" available at: <http://www.hmrc.gov.uk/budget2007/large-business-riskman.pdf>

- **Quicker resolution of tax issues**

Customer Relationship Managers (CRMs) interface with customers, bringing to the same table, corporate tax, VAT and accounting issues together with all concerned officers. They thus take a leading role in engaging companies on open cases. They help to draw up and implement an action plan for case resolution.

In addition to this, new guidelines have been drawn up and new resources committed to resolving large, complex transfer pricing enquiries within 18 or 36 months - depending on their complexity.

- **Improved clarity through effective consultation**

Steps have been taken to increase the number of public consultations and publish the cost-benefit analysis associated with policy decisions. This has been supported by a Consultation Framework outlining best practice such as consulting early in the policy development process, regularly throughout the process and ensuring that stakeholders have sufficient time to provide responses.

In addition to this a stronger emphasis has been placed on consultative forums with businesses and academia. For example, the Financial Secretary (Tax Minister) chairs a forum with multinational companies' Chief Finance Officers and selected HMRC and Treasury (Ministry of Finance) officials as members where developing tax policies are openly discussed prior to Budget action. Also, HMRC has set up a committee with senior academics from the U.K. Australia, the United States and European countries and selected HMRC officials as members in which they discuss ways to apply in practice recent developments in the field of tax analysis and jurisprudence.

- **More skilled tax professionals within HMRC**

New training and qualifications have been created for HMRC staff as well as improved engagement with the private sector to enable a greater transfer of information. A highly technical, Masters level seminar series with recognition as a post-graduate diploma has been set up for the tax analysis staff. It also includes a nascent secondment opportunities programme for staff between HMRC and the private sector.

Initial feedback from large businesses has been highly favourable, particularly in reference to the introduction of CRMs. As such, there are plans to extend the principles applied here to relationships with smaller businesses.

HMRC is also making an effort to understand individuals better. Research is being completed into differentiating between different types of individuals,

identifying what their experiences are like and ways that this can be improved. One result has been a series of improvements to the HMRC website including: categorisation of the website according to taxes, testing of content to ensure it is appropriate for its users, addition of new articles and development of the search facility. This kind of improvement cannot be achieved without appropriate resource allocation that HMRC has indeed allocated.

Individuals with complex personal tax affairs also receive specialist support under a separate directorate. The teams provide dedicated customer relations managers and telephone support for a "cradle to grave" service. Segmentation of customers (e.g. separating footballers and entertainers) to encourage further specialisation and increased understanding of tax affairs is hoped to further improve the service.

Aligned with this has been HMRC's approach towards Corporate and Social Responsibility. A key aspect of this is helping HMRC to be more inclusive, understanding customer needs and providing more flexibility in response. For example, following floods in 2007, HMRC offered businesses in the affected areas a more relaxed regime with greater time to submit returns and make payments. Similar considerations exist during the prevailing recessionary economic outlook.

In order to foster voluntary compliance, the HMRC Review of Powers has provided an opportunity to assess the principles applied through tax authority interventions. It is a programme to unify and align the differing powers inherited for different taxes.

The review has provided some clear principles by which the powers given to a tax administration should follow¹¹. These include:

- Setting the powers in a clear statutory framework.
- Making this easily understood by taxpayers, their agents and HMRC staff.
- Ensuring they are straightforward to comply with.
- Using powers consistently across taxes and customers.
- Making powers effective in providing the information HMRC needs to identify non-compliance and assess tax risks.
- Developing powers that are proportionate to the original offence and what HMRC needs to discharge its responsibilities or protect tax revenue.

¹¹ HMRC (2007) "Payments, repayments and debt: the developing programme of work" accessible from: http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ConsultationDocuments&propertyType=document&columns=1&id=HMCE_PROD1_027614

The review of penalty regimes for incorrect returns provides an example of how these principles can be applied in practice. It concluded that: the penalties charged fell within a very narrow range, so didn't offer the opportunity to differentiate between different types of taxpayer behaviour; some of the terms used in the guidance were not understood by HMRC customers; and that the differing regimes across taxes added to confusion¹².

As a result a new regime has been put in place that is consistent across taxes and only punishes those that have not taken "reasonable care". It differentiates between mistakes and active evasion whilst it also offers the novel use of suspended penalties - a new form of power now being tested by HMRC.

The U.K. Government is also now reviewing the potential for use of Principle Based Legislation. The first application of a principle based approach (tackling avoidance using financial products) is currently being consulted with a view to legislating in May 2009¹³. An important role of the consultation is to help strike the correct balance between adhering to demands from businesses to provide clarity to where the principle will be applied whilst not being too prescriptive. For instance, it may be possible for HMRC to facilitate the transition by providing pre-transaction clearance services for businesses to help identify where and when the new rules apply. The impacts of the new approach will offer an interesting and informative example of a consistent customer oriented approach¹⁴.

4. MANAGEMENT AND STRUCTURE

With a changing operating environment and shifts in technology it is essential that the management structure of modern tax administrations continues to evolve; reflecting best practice in the private sector whilst accepting the inherent differences in public versus private sector situations.

A definition of the objectives or targets for a tax administration seems like a good starting point. At the highest level these may be broad statements about what it is trying to be achieved such as increasing productivity, reducing errors or improving perceptions. However, beneath this there needs to be an interpretation that has practical meaning for those working within the organisation. A network of specific, measurable objectives needs to be in

¹² <http://www.hmrc.gov.uk/about/powers-appeal.htm#b2>

¹³ "Principle Based Approach to Financial Products Avoidance" (2008), HM Treasury:
http://www.hm-treasury.gov.uk/d/pbr08_financialproducts_802.pdf

¹⁴ HM Treasury (2008) "Principle Based Approach to Financial Products"
http://www.hm-treasury.gov.uk/d/pbr08_financialproducts_802.pdf

place for each sub-directorate - reflecting their day-to-day work and needs.

Functional directorates are a key feature of a modern tax administration that places taxpayer customers at the centre of what it does. This is when the department is structured according to the functions, or end customers of its services. For example, taxes affecting businesses could be grouped separately from those affecting individuals and, within these categories, the focus is on "Large Businesses" or "Local Compliance" for small and medium enterprises, or "High Income Individuals", rather than Corporate Tax being separate from VAT, or Capital Gains Taxes being separate from Income Taxes.

This encourages complimentary information and knowledge to flow across tax or geographic boundaries; enabling the tax administration to take full advantage of its extensive sources of data. In turn, it supports the development of strategic objectives with end customers in mind.

A modern recruitment system is another key requirement in maintaining a dynamic management structure. Open competition and decentralised recruitment should encourage free movement between the public and private sector at all levels of the organisation. In addition, it can be beneficial to allow specialist professions to develop recruitment systems appropriate to their specific needs - for instance, for analytical professions, technical tax professionals, or management specialists.

However, amongst all this it is important to maintain and support links between the different professions to foster understanding across all areas of the administrations and at all levels. In particular senior leaders and decision makers must maintain a strong knowledge of the working tax system to understand the full dimensions of any action they take.

4.1 Case Studies - Management & Structure

BRAZIL

SRF appears to run in close parallel to an autonomous public sector agency or even a private sector firm. Though operating within the confines of overall government hiring policy, there is considerable independence and discretion in the policy itself. SRF as well as SERPRO (the IT service provider) devise their own examinations, reflecting specialization in tax audit/accounting, IT, and related fields, enabling them to directly hire specialised professionals in their own fields early or midstream in their careers. The head of SRF is directly hired by the Minister of Finance, usually from the private sector or similar background, and has the rank of vice minister.

A particular style needs to be mentioned, if not emphasised, here. Except for the Directors of the SRF departments, all offices are open. Thus Division Chiefs share large open spaces with their entire division and work in close proximity with all staff members. Indeed, as will be indicated for the U.K., even the Permanent Secretary for Tax shares an open space with colleagues. Meetings are organised through a reservation system in a number of offices designated for them. India's style of management remains traditional.

INDIA

The structure of management of the revenue services in India has essentially remained similar over the years. There are two Boards-Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC)¹⁵ -that are overseen by a Revenue Secretary (RS) and his/her office for administrative purposes. While CBDT and CBEC comprise career tax officers, the RS comes from the elite Indian Administrative Service often with little experience in taxation matters. While the RS is a Secretary to the Government of India, the Chairmen of the Boards remain only Special Secretaries, a matter of frustration for career tax officers. National tax commissions have commented on and questioned this curious arrangement. Another matter that stands out is the continuing separation of the two Boards and their respective direct and indirect tax departments, in contrast to Brazil and the U.K. as well as to most advanced tax administrations globally.

The tax departments reflect mainly along geographical demarcations rather than functional ones. Thus taxpayer filing, assessment and audit/scrutiny all accrue to one office and, most remarkably, to one officer. Thus, when a taxpayer moves from one part of the country to another, a major preoccupation for him or her becomes how to move the "file". The Systems Integrator, together with the Tax Information Network will hopefully enable such movement seamlessly in the future. Otherwise, a major objective of ICT improvement to facilitate customer focus will remain unachieved.

Indeed, the Indian tax administration-in fact the entire government administration-moves on the basis of a hard copy file system.

India has an excellent training programme for entering tax officers that covers a span of two years. In the past, officers emerging from the programme have tended to take their future as a life long service, taking rightful pride in career advancement and place in society. That situation has changed slightly. First, the differentials in salaries between the private and government sectors has expanded as the multinational accountancy firms have established offices in

¹⁵ *Separate Customs and Excise departments were combined many years back.*

India and an observable number of quality officers move out to them. Indeed, it is not just the salary structure-the central government has just implemented an upward shift in the salary structure and there are also many non-pecuniary benefits such as highly subsidised living quarters in congenial locations and liberally provided transport facilities-but also the overall traditional managerial style and structure that act as disincentives for the more dynamic officers to stay in public sector employment.

Promotions are based on the year ("batch") of entrance to the Indian revenue services. While the best officers tend to get good postings in a balancing effort, this possibility is circumscribed by the need to fulfill equity and regional balance objectives. This stands out somewhat from other cases. For example, in the U.K., jobs are usually advertised. First, internal candidates at the same grade (as in the advertised position) apply; in the next round, a job is thrown open to potentially promotional candidates; and, in the third, to external candidates. The process can be rather long but is more targeted and carries with it the likelihood of strong candidates being selected. India has some distance to travel her recruitment policy and enhancement of competitive structures to promote functional specialisation.

Another aspect of training is the training module. While the syllabus is extremely comprehensive, being both wide and deep, it has so far not incorporated latest management tools and techniques. This pertains in particular to top management, for example, oral language usage, written communication (for example, the advantage of using active versus passive voice, "people" rather than HRD, customer or stakeholder rather than taxpayer), leadership attributes, meeting the challenge or vision function successfully, and many others. Incorporation of such features even belatedly would go a long way for management to move from tradition towards a more dynamic view to reshape the administrative structure.

UNITED KINGDOM

HM Revenue & Customs was formed in 2005 from the merger of separate direct and indirect tax departments - Inland Revenue and Customs and Excise¹⁶. This followed from the recommendations of the "Review of the Revenue Departments" (HMT, 2004). The review suggested that the new structure could generate large efficiency savings, create additional flexibility in the allocation of resources and enable the improved use of information and data - helping to improve the value for money provided to the UK's taxpayers.

¹⁶ *Broadly speaking, the Inland Revenue had previously administered direct taxes such as Income Tax and Corporation Tax whilst Customs and Excise had managed indirect taxes such as VAT and excise duties.*

The department currently has three publicly stated Departmental Strategic Objectives (DSO's): to ensure the correct amount of tax is paid, improve customer perceptions, and to ensure the security of the UK's borders. These have subsequently been interpreted into a set of quantitative, measurable Performance Indicators for each functional area of HMRC in order to monitor progress over time.

Functional directorates are a key feature of the new department. At the management level, operational directorates are grouped under Personal Taxes, Business Taxes, and Customs & Excise. Below this, directorates are not based on specific tax or geographic characteristics but under titles such as Charities, Assets and Residence, Large Business Service, Business Tax (Corporation Tax & VAT-- both of which are interestingly considered as taxes on businesses), Local Compliance (for small and medium taxpayers), Complex Individuals, and so on, all reflecting groups of ultimate customers. Other functional departments include Debt, Central Compliance, Risk and Intelligence, KAI and others with specific functional or analytical focus.

One interesting aspect of HMRC people policy is the hiring of management from the private sector both in the tax and non-tax areas. Such a structure, in order to be successful, must have the wherewithal to recognise at which intervention points there are the points there are benefits, and where not. On the one hand, management hiring from the private sector tends to bring in state-of-the-art management approaches. A challenge of course does remain regarding the right configuration for managerial versus taxation expertise, their respective treatments, and the assignation of their roles, responsibilities and accountabilities. The point here is that recognition is given to the need for pure management emanating from the management sector rather than managing the department on the basis of managerial abilities and experience of tax officials, however senior, alone. The concomitant challenge is attempted to be addressed by arriving at the right balance between the two.

In terms of tax expertise itself, there is no limitation on external hiring so that internal and external tax experience-with the latter's knowledge of the latest taxation and advisory strategies practised in the private sector-mesh intelligently. This allows specialist risk management, debt management and detection skills to be fostered in an intrinsic manner. It, therefore, remains vital that, where this is the case, communication links between the different directorates and across operational groupings are well developed and successfully maintained.

Management officials are often recruited from the private sector or public autonomous agencies, facilitating the direct incorporation of state-of-the-arts techniques for strategy and management into HMRC. However, maintaining specialised skills amongst senior decision makers has been an important

challenge. Throughout the restructuring process it was essential to ensure that specialised tax skills were maintained and further developed at the most senior levels in order to prevent distancing of HMRC's operational front-line from the senior decision making process.

In the U.K. as in Brazil, offices could be said to be basically paperless. And they are physically open. Thus, the Permanent Secretary for Tax as well as the bulk of HMRC Directors sit in widely open offices with their professional teams and support staff. Both these features together enable "hot-desking" i.e. there is an 80% physical infrastructure need for 100% staff with direct positive outcomes for cost containment.

In sum, HMRC's overall management and structure is based on many modern management principles. Indeed, it could set an example of how to organise a modern tax administration. Its challenge remains in maintaining the optimal combination of pure management and taxation specialist skills, as well as between external private sector and internal department skills.

5. TAX ADMINISTRATION IN THE CURRENT ECONOMIC AND SOCIAL ENVIRONMENT

The global economic slowdown comprises the most pressing factor affecting tax administrations all over the world. This is likely to impact on tax administrations in three ways: changes in revenue raised (together with increased arrears), changes in officers' operational workloads, and changes in taxpayer compliance behaviour. This section of the paper reviews each of these in turn.

5.1 Changes in Revenue

It can be fairly unambiguously argued that a downturn in global economic activity will cause a reduction in tax revenues raised from just about every source. This is being currently experienced by most tax administrations. Alongside this, there is likely to be increases in the level of debt owed to tax administrations, with greater delays in payments. However, a more pertinent question maybe, what impact might this ultimately have on tax administrations.

Could more pressure be placed to close tax gaps to increase revenue available to expenditure departments? Could the declines in government revenue have strong ramifications for ministry/departmental budgets - restricting large capital investment projects, in particular for ICT in the case of tax departments? At the present time it is clear that more questions are likely to be raised than answers.

5.2 Changes in Operational Workloads

The impact on total workload for a tax administration is not clear. However, it is likely that shifts between different types of processes can be identified at a fairly early stage.

Falling numbers of new registrations from potential business taxpayers, reduced numbers of employees requiring income tax processing and a marginal improvement in ability to recruit new staff could act to reduce workloads. Meanwhile, changing employment details, rising numbers of company closures and increasing complications with debt settlements would act to increase workloads.

With this in mind, it might be possible for tax administrations to identify areas that are likely to come under increased pressure and be prepared to switch resources as required.

5.3 Changes in Compliance

A weakening economy implies falling profits, incomes and bonuses for individuals and businesses. This results in reduced opportunities for taxpayers to engage in non-compliance. This would tend to reduce the total value of tax revenue at risk from non-compliance.

However, the weakening economy will also present tax administrations with some additional compliance risks. For example, small businesses may find cash flow problems exacerbated by the delay between assessment and payment of corporate income tax. This delay means that small businesses, in having to pay taxes on historic profits at a time when the weakening economy is squeezing their cash flow, may feel obliged to operate in the grey areas of compliance. The economic slowdown may exacerbate existing risks to compliance also by large businesses as they seek to increase levels of avoidance in order to preserve their post-tax profitability.

Additionally, to the extent that unemployment increases, and individuals fall out of formal employment, there will be more potential taxpayers outside the relatively secure compliance environment of employment income and with greater control over their tax affairs. This may increase amounts of simple errors as well as deliberate non-compliance. Meanwhile, illicit markets for excise goods are likely to grow as the economy slows. During a recession, consumers may react to falling incomes by switching to cheaper illicit products. Small companies and large retailers may also be more willing to stock such products if demand for legal goods declines.

Therefore, the net implications of a weakening economy for compliance are not clear cut, and would depend on the taxpayer segment and type of non-compliance. Yield from compliance activities can be expected to hold up over the next few years as compliance yield is determined by historic profit levels. However, tax collection itself from both small and large businesses should become more difficult, posing challenges for tax administrations.

To add to the complexity, aspects of revenue reduction reflecting low economic growth and the rise in arrears reflecting the reduced status of businesses appear in combination with unpredictable changes in compliance behaviour. It is therefore a challenge for tax administrations to allocate appropriate resources among these competing, yet intertwined, aspects of tax administration. Essentially, though they are intertwined aspects, in the final analysis, the challenge is that they have to be separated for budgetary allocation purposes. Careful background analysis needs to be carried out internally in order to achieve this right balance.

Overall, there are significant risks regarding the effects that changes in global economic growth will have for tax administrations. The larger the fluctuations in economic activity, the greater are the wider uncertainties that afflict tax administrations. Whilst some impacts do seem relatively predictable and can be prepared for, others cannot. Specific challenges for tax administrations have also appeared through decisions in many countries to use temporary fiscal stimuli—such as a temporary (or uncertain) reduction in tax rates as a policy tool—as in all three countries that I have used for my illustrations. While providing economic stimulus, they tend to generate complexities to tax calculations that administrations need to be ready to deal with. Fundamentally, tax administrations have to be prepared for an increased spread of risk, taking this into account when making budgetary decisions, in particular with respect to large capital investments.

6. CONCLUDING REMARKS

A clear path forwards for developing a modern tax administration comprises, first, taking advantage of new developments in technology and, second, state-of-the-art management techniques to produce quality customer service. Third, such management keeps the taxpayer as the primary focus, in the same manner as a customer for a private firm.

Fourth, developing and making available to tax administrations an analytical base for policy making, based on an IT enabled data warehouse, must be at the centre of this strategy. This will help drive changes in policy through

analysis and evidence, provide analytically sound internal measures of performance, and enable a more sophisticated understanding of customers, their expectations and their compliance behaviour.

Last, but not least, it is also clear that the uncertainty surrounding current economic conditions and the associated pressures on government finances pose significant risks to the best laid out plans for the progress of a modern tax administration. Whilst these pressures will inevitably affect the short, or even medium term, functioning of tax systems, the longer term direction of modern tax administrations remains clear and that path should not be lost.

TOPIC 1

THE INFORMATION AND COMMUNICATION TECHNOLOGIES AT THE SERVICE OF THE TAX ADMINISTRATION

Lecture

Topic 1

THE INFORMATION AND COMMUNICATION TECHNOLOGIES AT THE SERVICE OF THE TAX ADMINISTRATION

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SUMMARY: Executive summary.- 1. Elements to be considered to put ICTs at the disposal of the TA.- 2. Internet at the service of the tax process transformation.- 3. The transforming experience of the DGII; how we approach each element.

EXECUTIVE SUMMARY

This paper has been divided into three main parts with the intention of putting forward those aspects we believe allow Information and Communication Technologies to serve the Tax Administration.

First, we discuss the importance of implementing "Good IT governance", understanding by it a set of actions that allow articulating the decisions regarding the management and the use of information technologies with desired behavior and the business' objectives.

A classification of the types of IT governance is shown based on technology-related decisions. The classifications of the types of IT governance are: Business Monarchy, IT Monarchy, Feudal, Duopoly and Anarchic.

Secondly, the identification of the elements that must be considered for ICTs to serve a TA, namely:

- a. The definition of the role and the impact of ICTs on the organizational strategy.

- b. The alignment of ICT Vision with the organization's strategies.
- c. The organization's comprehensive vision.
- d. The tax administration's transforming commitment of key processes both inwardly and outwardly.
- e. The ability to return to taxpayers, through the TA's better services and more transparent actions, investments in ICT-related projects
- f. The legislation available to undertake modernizing processes

Next, a description of each of these elements and how they were approached at the General Office of Internal Taxes (DGII, in Spanish) of the Dominican Republic; the DGII's experience with the use of ICT with a view to contributing to the achievement of its strategic guideline "Increase Tax Collection sustainably." This discussion is based upon:

- The role assigned by the DGII to ICTs, in accordance with its vision, aimed at: "Becoming a prestigious and trustworthy organization using policies, procedures and **information systems that operate efficiently**, with the aid of ethically and professionally unobjectionable people working under the guideline of increasing tax collection sustainably, reducing evasion and respecting taxpayers' rights."
- The certainty that taxpayers' fulfillment level and the consistency thereof depend on organizational and technological performance, where technological performance is identified as the element that provides consistency to the achieved fulfillment level. Showing high performance in these two factors is what allows accomplishing a high level of fulfillment sustained over time.

The role of ICTs is seen to be explicitly included in the DGII's Vision. ICT, along with the policies, procedures and the ethically and professionally unobjectionable, are an indivisible unity apt to cut down evasion and achieve a sustained increase in tax collection.

The document describes the DGII's projects having a high component of ICT use, such as: Online Office, Fiscal Printers, Billing or Tax Receipt Control, etc.

The execution of such Projects have allowed the DGII, among other things, to move from receiving no online tax returns in 2005, to receiving 80% of VAT returns and 75% of Income Tax returns filed electronically in 2008.

Public and private entities could be defined as organizations made up of processes; some are industrial processes, others are service processes, others are control processes. But they all are, ultimately, processes. In all cases what is pursued is the accomplishment of results for the benefit of another process, a client, a taxpayer or, in broader terms, a citizen.

Hence, talking about Information and Communication Technologies serving Tax Administrations (TA) is akin to talking about ICTs serving the facilitation and efficiency in the execution of the organizations' processes.

It is simply by observing how ICTs have transformed our way of life that we can understand how they have been serving organizations and the transformation of any process.

For example, in the field of medical processes, nanotechnology¹ has paved the way for the evolution of endoscopy, all the way up to creating minuscule cameras that are introduced as capsules in the human body so that experts can look inside it. Or how tomography, which reproduces the images of organs and their conditions, has contributed to the adequate diagnosis of illnesses.

If we conclude that ICTs have impacted all areas of our business, then they have clearly become indispensable and critical to the organization's good performance.

In the tax environment, we try to identify how processes can be transformed in order to manage taxes with a view to increasing or maintaining taxpayers' fulfillment levels and thereby preserve or increase tax collection. To make processes more efficient and effective, ICTs must serve this transforming goal.

For these tools to contribute significantly to the organizational objective there is the need to implement "Good IT governance". "Good IT governance" allows articulating the decisions regarding the administration and the use of Information Technologies with desired behavior and the business' objectives"²

IT Governance can be placed within the conceptual framework of "Corporate Governance", which involves the management of organizations in order to provide strategic guidelines, assure the achievement of the company's objectives, guarantee proper risk management and see that the company's resources are used transparently and responsibly. What could be a more suitable tool to contribute to the objective of achieving operating transparency in the organizations than ICTs?

¹ *Nanotechnology is an applied science that controls and manipulates matter at a lower scale than a micrometer, that is, at the level of atoms and molecules (nanomaterials).*

² *IT Governance, Peter Weil and Jeanne W. Ross, Harvard Business School. IT Governance concerns the strategic and operating framework in which IT tasks and projects are developed within an organization for the achievement of desired behavior in the use of ICT.*

According to the book "IT Governance", there are 6 IT governance models: Business monarchy, Feudal, Federated, Duopoly and Anarchic. These models characterize the organization's type of IT Governance based on the way they make decisions regarding the following aspects: role, architecture, infrastructure, applications or systems, investment focus and project prioritization. Let us take a look at the characteristics of each model:

- a. **Business monarchy:** In this model, the decisions regarding ICT aspects with respect to role, architecture, infrastructure, applications or systems, investment focus and project prioritization are made by senior management.
- b. **IT Monarchy:** In this case, the decisions regarding the above cited aspects are made by IT specialists.
- c. **Feudal:** Usually, in organizations having business units or functional or regional units, decisions are made in accordance with the needs of each business, functional or regional unit.
- d. **Federal:** The decisions regarding IT are made by senior management and the leaders of the organization or the business, without the necessary participation of IT.
- e. **Duopoly:** It represents a combination of models in which decisions are made jointly by IT specialists and the senior management, along with the business' functional or unit leaders.
- f. **Anarchic:** The decisions are made independently by groups.

To discuss the trend in the use of one or another form of IT governance, an investigation was carried out with large profit and non-for-profit organizations. This study resulted, among other things, in the following conclusions:

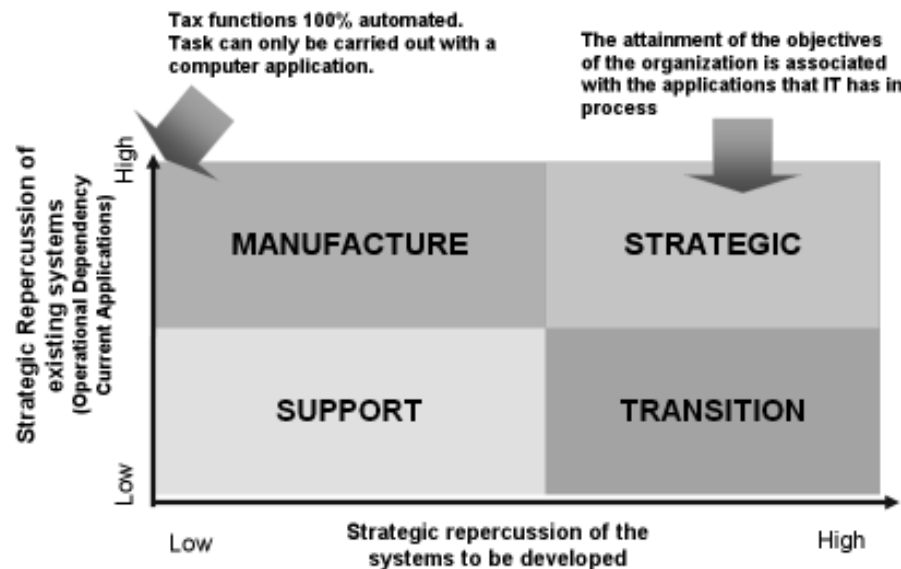
- a. Eighty percent (80%) of private-sector organizations apply an IT governance model that combines Federal and Duopoly styles.
- b. In the sector of non-profit and governmental organizations, business monarchy prevails, except with regards to IT architecture, with fewer organizations operating under the IT monarchy model, focusing on decisions related to Technologies. Twenty percent (20%) of the organizations use the feudal model for IT-related decision-making.

This study provides an overview of the differences and similarities among the different types of organizations based on the way they implement IT governance. Although these findings do not necessarily show a trend in TAs, because it is a general study conducted in the public sector, we would like to underline that the participation of IT specialists in the decisions regarding the above stated aspects is substantially lower in this type of organizations.

If we believe as good and valid that ICTs are indispensable tools for transforming processes, we should make certain that the decisions on this regard are taken based on the organization's needs and priorities and not on a part thereof.

In this sense, the trend is to have IT specialists participate in the decision-making process, and own the IT governance process. "IT governance requires someone who advocates and owns IT governance". "The CIO or the IT governance officer is the most effective mechanism to advocate and teach IT governance"³. This is in no way intended to promote IT monarchy, but rather the idea that there should be someone responsible for the achievement of the objectives towards sound IT governance.

The McFarlan's matrix⁴ is a tool that allows measuring the good use of ICTs by identifying how they affect the organization. We should check whether IT actions (investment, applications, etc.) have been carried out and whether they have impacted the organization's strategic objectives.



³ IT Governance, Peter Weil and Jeanne W. Ross, Harvard Business School, 2004.

⁴ F. Warren McFarlan

By placing executed and to be executed projects in these quadrants we can see if the use we give to ICTs is aligned with the organization's strategic objectives and, therefore, if ICTs serve its transformation. Clearly, if the repercussion or impact of such projects does not transcend mechanization, speaking of process transformation is out of place.

Other models targeted at financial results measure the value added by ICTs based on their contribution to reducing costs or increasing revenues.

Although we said that organizations' process management is a common feature when approaching the issue of ICTs, we cannot disregard the fact that governmental organizations differ largely from private organizations in the manner they implement ICTs, and this is because they do not pursue profits, nor is there a competitive market in which they operate, nor do they fight for a share of the market.

Therefore, if these are the factors that allow weighing clearly the added value of ICTs in the accomplishment of the organization's objectives in the private sector, then public organizations must be more creative when it comes to these measurements.

Fortunately, in the case of TAs there are elements that allow measuring the added value of ICTs with regard to their impact on costs and revenues, much similarly as private organizations do. For example, some ICT projects can be tied to the generation of revenues deriving from tax collection, and similarly other projects can be tied to the reduction of costs to the TA or the taxpayer. Evidently, this type of aspects helps integrate the use of ICTs with the TA's strategic plans.

We have put forward the existence of a diverse conceptual framework that provides elements and tools for analyzing the issue of ICTs. We believed this was important to realize that the issue of the use of ICTs has been the center of attention of organizations and prestigious authors over the last years.

In our part, the rest of this document will be devoted to discussing the elements that we believe allow putting ICTs at the disposal of the Tax Administration and how they help transform tax processes when this task is successfully achieved.

1. ELEMENTS TO BE CONSIDERED TO PUT ICTS AT THE DISPOSAL OF THE TA

The use of ICTs to improve Tax Administrations' processes has become a great challenge due to diverse reasons: the pressure by society for ever modern and efficient States in terms of operating costs, the demands of transparency in the use of resources and the Administration's actions, the complexity inherent in using ICTs adequately and the difficulties to determine the contribution of Technology to the transformation of each process and the transformation of the people managing them, or how technology contributes to more equitable actions of the administration.

Many are the aspects that turn the use of ICTs into a challenge; it is an exercise demanding big efforts to achieve results that can be regarded positive.

Additionally, for this positive assessment to last long, the challenge includes the objective proof that results obtained have helped improve the Tax Administration. Because of the large investments required it is essential to be perceived adequately by the citizenry and the taxpayers.

To this end, quantitative and qualitative metrics must be established to measure the impact of ICTs. In this way we will know whether we have fulfilled the citizens' demand for more efficient and effective services. All this without overlooking the fact that, in essence, TAs work to accomplish ever greater taxpayer fulfillment levels, and, that ICTs as any other resource, must contribute to meet this objective. This balance is key to fulfilling the TA's mission more effectively, having more satisfied taxpayers and more citizens content with the transparency of TA's actions.

On the other hand, the type of operations conducted by TAs helps impact positively on a great number of citizens, individuals and corporates. This allow the TA to become a promoter of modernizing processes of private and public-sector entities, as it encourages innovative practices based on the use of technologies that facilitate tax fulfillment.

This possibility of assuming a more relevant role becomes an additional pressure which, if assumed as a challenge, could represent a contribution to its reputation and credibility and, hence, a favorable element to promote transformation projects executed within the TA.

Another aspect that should help the TA become a role-model in their countries is that it can be perceived as an organization whose "business" is information, because it depends on systems and requires that the staff be composed of qualified people apt to manage information (information managers) to achieve a high performance.

The conditions have been set up for the TA to undertake projects of process transformation using ICTs and their potential for innovation as a supporting instrument for this transformation.

We have identified the elements that in our opinion should be considered to put ICTs at the disposal of a TA that purports to be more effective and efficient. These elements can be tied to the components that support good governance regulation of ICTs, namely:

- a. The definition of the role and the impact of ICTs on the organizational strategy
- b. The alignment of ICTs Vision with the organization's strategy
- c. The organization's integral vision
- d. The tax administration's transforming commitment of key processes both inwardly and outwardly
- e. The ability to return to taxpayers, through the TA's better services and more transparent actions, the investments in ICT-related projects
- f. The legislation available to undertake modernizing processes

Let us discuss each of them individually.

Regarding the first element, the role of ICTs in the organizational strategy is to emphasize that the TA's management must be persuaded of the role that ICTs should play for the accomplishment of its strategic objectives. But expecting ICTs to solve all the TA's problems means not knowing the possibilities of the tools, however extraordinary and amazing these might be.

The risks implied in not knowing clearly the role of ICTs are many.

Much time and money can be invested fruitlessly if our modernizing projects are designed to use ICTs as an instrument to execute conceptually old processes in technically modern ways.

Thus, for example, we could be wasting time and money creating innovative systems for using data with examining officers trained to review papers. We could be wasting time digitalizing documents or creating electronic documents to eliminate paper that is otherwise obligatory in judicial proceedings.

Much time and money can be invested pointlessly if we fail to outline institutional strategies that specify the expectations in respect of the use of ICTs.

Clearly, having a vision of the role of ICTs allows aligning the expectations of results with the organization's expectations and the remaining functions or processes.

In the case of Tax Administrations, the progress in the use of ICTs requires accompanying investments with human resource management projects in order to improve training and recruiting, rather than focusing on knowing competences, skills and potentialities. This will allow having staff that assimilates the process transformation more easily.

Every institutional strategy must be accompanied by a definition of the technological tools that must be used to achieve it. This assures that their contribution is objectively dimensioned.

If the TA intends to use ICTs to reduce tax fulfillment costs, we must be aware that designing and developing an Online Office allowing taxpayers to fulfill all their obligations without having to move from their shops is not enough; rather, an adequate use of such Office must be guaranteed, feedback mechanisms must be created in order to know users' needs and thus make the Online Office a long-lasting tool; and most of all, we see to it that taxpayers' costs are reduced. Only then can we say that the organizational objective was accomplished.

In a broader sense, Tax Administrations should be capable of making room for ICTs in their strategic plan. They must establish the degree of confidence on this tool. What type of relationship exists among the objectives related to tax collection, examination, service, etc., and ICTs; and whether they are counted on to innovate the way they carry out their functions or whether the use thereof is predetermined or limited by the knowledge of the tax function.

The second element we render essential to have ICTs serve the TA's objectives is to have a Vision of ICTs aligned with the organizational objectives.

This element is many times understated with the resulting absence of a vision that allows technology specialists to make the most suitable technical decisions for the organization and meet the organization's expectations with regard to Technology.

A vision of ICTs must include the necessary aspects to guide decisions regarding the selection of languages or the most adequate development tools, the equipment, the human resources or the technological processes. In other words, the decisions made regarding the elements cited by Peter Weil and Jeanne W. Ross in the book "IT Governance", that is, architecture, infrastructure, investments etc., no matter how far they are from the tax collection objective, should contribute to the organization's objective.

If IT areas have a vision that forces them to make technical decisions influenced by the organization's needs, ICT platforms will be more appropriate

and the investments more reasonable. Determining what equipment or database to use is a technical decision, but must be permeated by the organization's reality and its purpose. Otherwise, we will have equipment and systems that will not contribute to the institutional development, to the intended TA transformation and will not impact taxpayers' levels of tax fulfillment.

The third element, the organization's integral vision, concerns the ability to favor the TA's objectives over the individual objectives of each of the areas that operate within the organization. This entails using all available factors, Technologies, Human Resources and the techniques to Improve Processes as a unity that pursues the best results for the organization.

Often, the management leaders of ICTs seem not to share the same objectives as the rest of the organization's leaders do; and at the same time the different leaders of processes seem to look at ICTs as a necessary evil. Both ends are explained by the lack of a clear Vision for ICTs and the absence of an understanding of the role of ICTs in the transformation of the TA. These ends definitely fail to contribute to our goal of having ICT serve the Tax Administration.

In other fields, we will not hear any successful medical professional of today say that endoscopy transformed by nanotechnology or the new tomography equipment we cited here before have substituted their medical knowledge for making diagnosis. However, new medical specialists had to acquire the adequate skills to apply and understand this technology and make a better medical diagnosis from the interpretation of results.

The objective pursued is that the functional leaders of tax processes and the IT leader work aligned with the organizational strategy and, therefore, towards the achievement of the TA's objectives. That they should move from their usual private or personal interest to an interest in the information required by the organization. It means stop seeing ICTs as simple, supporting tools and understanding them as indispensable tools for managing the information that is the input of tax management.

This alignment implies accepting that the transformation of processes will lead to an increase in the levels of tax fulfillment and, moreover, maintain fulfillment levels over time. Unless the tax authorities are committed to the transformation of processes, ICTs will be an ornament.

We have said here that transforming an organization requires that ICTs should serve this purpose, but with authorities able to assume responsibly the tasks inherent in any transformation project. This is addressed by the fourth element we have stated as essential.

The tax authorities must be ready to assume the commitments implied in the implementation of technologies and process transformation, for the idea is to get rid of prejudices and paradigms so that processes can be conducted differently, with the means available to us in the modern world.

Assuming the commitment to transform the organization using ICTs implies a change in paradigm. Some have taken this change in the way of seeing things to the point of saying that organizations have a real⁵ and a virtual value chain⁶. The virtual value chain would be that new paradigm of assuming the transformation of the organizations, achieving a replication of real processes into virtual processes. If tax authorities take on this commitment, they may - through the use of ICTs- create more efficient and effective mechanisms of interaction with taxpayers, suppliers and the citizens at large.

However, transforming processes is not an easy task; it may even imply a relative loss of power by the authorities as a consequence of ever transparent processes, where controls are increasingly objective and determined by the rules contained in computing systems. Likewise, the evaluation of officers, processes and results can be made more objectively. ICTs can impact positively on the way the results are shown to the employees, on the processes and on the organization.

When the tax authority decides to sponsor ICTs as a triggering element of the transformation of processes and organizations, it must be aware of the impact therefrom on the TA's evaluation processes.

This positive effect on the transparency in the use of ICTs, well propagated to the citizenry, becomes a factor affecting positively the continuity and the social acceptance of introduced changes.

The fifth element is concerned with the need that ICT projects be translated into better services for the citizens and more transparent actions of TAs.

For the society to perceive the positive impact of ICTs, the results must be shown beyond the impact on taxpayer control and improved internal processes. ICTs must be shown as contributing to a more transparent action of the TA and its officers.

⁵ Porter, Michael. (1985), *Competitive Advantage. The Value Chain is a form of analysis of the business environment, according to which the organization is broken down into its basic functions with a view to identifying the sources of competitive advantages in value-generating activities.*

⁶ Thesis by Rayport and Sviokla, 1996

The best way that the investment in ICTs can be valued positively is using ICTs to offer information on the TA's actions. It is essential for the society that public organizations show more transparent actions, and this conveys being accountable especially for the investment in ICT-related projects.

Definitively, from the taxpayers' perspective, the use of ICTs must be translated necessarily into better services; so including mechanisms for simplification and facilitation of tax fulfillment as a priority of TA's objectives is vital. To check if taxpayers and citizens believe that the right things are being done, we should interact with them.

In this sense, the policy of communicating with taxpayers and gaining their feedback on the TA plays a relevant role. This policy must be aimed at, on the one hand, the education on duties, rights and tax fulfillment modalities; and on the other hand, at conducting opinion polls intended to know what taxpayers think of the TA, its service and the tools provided for fulfillment.

Now, well, all these efforts are made within a certain context that is limited by the effective legal provisions; and this is addressed by the sixth element. Introducing ICTs with an innovative criterion also requires adopting the tax regulation so that electronic documents, digital signatures and electronic addresses may have legal value. In addition, the wording of the legal provisions should be sufficiently general to allow the TA to have the power to introduce the necessary changes in the administrative procedures.

The favorable impact of the regulation relative to electronic commerce and digital signature with the transformation of processes making use of ICTs is worth mentioning here. Projects such as the electronic invoice and the replacement of physical documents by electronic documents have received an important push from these laws that provide the legal support to the use of digitally-signed documents.

2. INTERNET AT THE SERVICE OF THE TAX PROCESS TRANSFORMATION

When speaking of Technologies that promote innovative practices, we have to highlight in particular the Internet.

There is no doubt that the Internet has been a key tool for the transformation of service processes. The influence has been so strong that the states have been forced to create strategies for improving citizen services based on offering them mainly on the Internet. E-government, as this objective of states has

been named, has become a whole strategy for society transformation. And it is within the frame of these e-government strategies that ICTs are considered a powerful communication tool for transparency, cost reduction and administrative efficiency.

In the case of TAs, the way the Internet has allowed them to communicate with taxpayers, but also with the entities related TAs, has been determinant.

Over the last 10 years, the Internet has gone from being a communication means with taxpayers to becoming the basis for integration of data exchange procedures with taxpayers and the entities that forward information or conduct processes together with the TAs.

So, for example, the technical procedures for exchanging data with the banking institutions that receive tax payments or with the taxpayers that lodge tax returns or data have undergone an impressive transformation as a result of the Internet.

While some years ago data were submitted mostly in diskettes or CDs for their subsequent load into the TAs' systems, today data are received mostly through electronic means in predetermined formats. This has transformed impressively the quality of the data available to the TA and reduced the time and the staff in charge of carrying out the processes of checking data delivery and data loading.

For the TAs that have initiated their ICT modernization or integration process in the last years, Internet has definitely set the guideline. As for the reduction in taxpayer fulfillment costs, Internet provides tools for lodging tax returns, making payments, obtaining information, updating data, inquiring tax returns and payments, receiving notices and requesting services, among other things. For any diligence, Internet has become the best tool if simplification is sought.

In this sense, the Online Offices have become vital tools for reducing the costs incurred by taxpayers in fulfilling their tax obligations; not only in terms thereof but in terms of the efficiency of Tax Administrations' internal processes as well.

As for the transformation of processes within the organization, the Internet has impacted notably. One of these aspects is the processing of data forwarded by taxpayer, where taxpayer has gone from being a person obliged to deliver information to becoming a person obliged to process the information for delivery.

Furthermore, the relationship with the entities in charge of collecting taxes, such as banks, has been transformed by the introduction of their own online offices that allow our taxpayers, who are their clients, to make payments electronically. Moreover, this technological openness of the banking sector, which used to rely on closed technologies, has allowed updating taxpayers' payment data on line or in real time thanks to the open procedures of information exchange.

So the progress brought about by the Internet and its potential for the transformation of tax processes require the special attention of Tax Administrations. With this tool, the possibility of transforming tax processes into electronic processes is increasingly making sense.

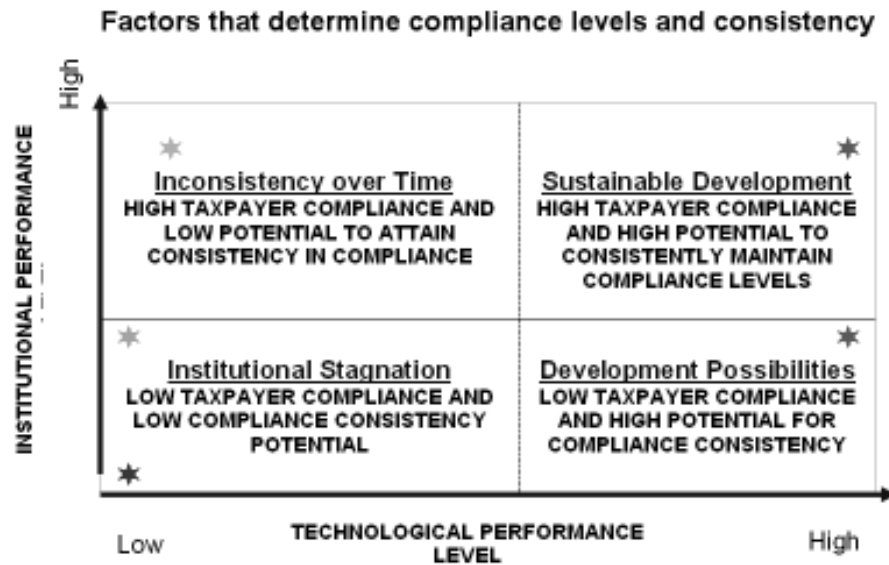
3. THE TRANSFORMING EXPERIENCE OF THE DGII; HOW WE APPROACH EACH ELEMENT

In the following pages we will describe the way the General Office of Internal Taxes of the Dominican Republic (DGII) has approached each of the six elements that constitute critical factors to the success in the use of ICTs and the achieved results.

Over the last years, a modernization process has been implemented in the DGII in which ICTs have remained as a vital tool. This role derives from the certainty that maintaining a high level of tax compliance over time depends on the enhancement of the technological performance.

For the DGII, the reasons that explain the level of taxpayer compliance and its consistency over time⁷ are: organizational performance and technological performance.

⁷ *Compliance Control, Juan Hernández Batista, 40th CIAT General Assembly 2006*



The first one concerns "the Tax Administration's ability to meet its short, medium and long-term goals and objectives." This dimension comprises aspects such as the society's perception of the organization's effectiveness, the capabilities and attitudes of its human resources, the organizational culture that characterizes it, the quality of its actions from an ethical perspective, the taxpayers' perception of risk and the institution's leaders' confidence in maintaining positions and influencing society."

"Achieving high institutional performance" then becomes a sort of organizational leveraging factor that allows maximizing the institution's resources. It is a way of using such intangible factors as credibility, respectability, leadership, etc., inherent in it, as most suitably."

A high institutional performance brings about ever higher fulfillment levels, because taxpayers perceive an institution that meets its objectives. One of the ways of measuring institutional performance is through surveys, which the DGII conducts at least once a year.

The last survey carried out in Santo Domingo⁸ showed the following results: 89.5% of interviewees trust the DGII and 85.5% think the DGII's ethical behavior is between excellent and good; and 87.1% believe the DGII performs its tasks transparently.

⁸ Currently a new survey is being conducted.

The second factor has to do with the "ability to use the technological tools acquired and developed by the Administration in alignment with its strategic objectives. This dimension comprises the effective use of technology to improve the Tax Management tasks, guaranteeing taxpayers' fulfillment and the return on investment in the short and medium term".

Accomplishing a high performance in these two factors is what makes it possible to achieve a high level of compliance, but consistent over time. If an organization shows a high institutional performance but fails to use ICTs effectively, the level of compliance will undergo ups and downs, because the processes will depend on the people and their capabilities. When this high institutional performance is accompanied by a high technological performance, the accomplished fulfillment levels will be consistent over time.

For example, there can be outstanding staff, ethically and professionally unobjectionable, who may design a plan that will raise fulfillment levels; but its sustainability over time will depend on the computing systems that such staff designs for the continuity and objectivity of such plan; as well as on the decisions made by IT specialists regarding the technical design of these applications for stability and perdurability purposes.

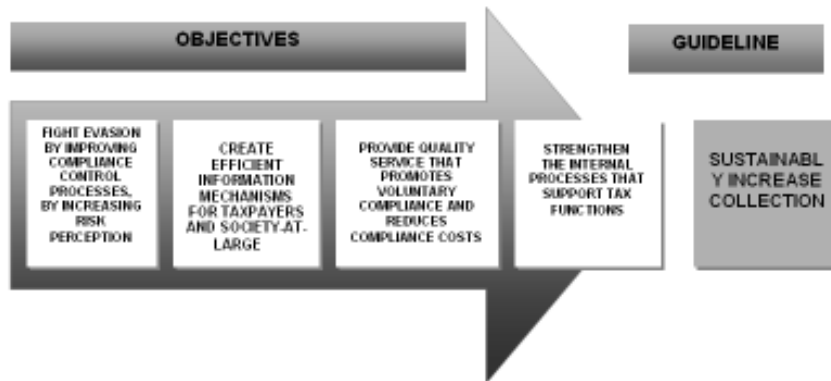
In addition to this integral vision that implies understanding the processes, the technology and the persons as a single body to attain the effectiveness levels required from the TA in the modern world, we have structured a strategic plan with a strategic guideline and several objectives, each of them having strategic initiatives in the area of ICTs. Each objective has implied the incorporation of different types of technologies and systems.

The role of ICTs is explicitly included in the DGII's Vision: "Becoming a prestigious and trustworthy organization using policies, procedures and **information systems that operate efficiently**, with the aid of ethical and unobjectionably professional people working under the guideline of increasing tax collection sustainably, reducing evasion and respecting taxpayers' rights."

From the declaration that reflects the organization's aspirations we can see the intention to use ICTs efficiently for the attainment of the guideline; and ICTs, along with the policies, procedures and the ethically and professionally unobjectionable people, as an indivisible unity to reduce evasion and achieve a sustained increase in tax collection.

Furthermore, if we see the DGII's planning as a flow of actions targeted at achieving a certain guideline, the graph below could be representative of this. From the graph, we can see how the guideline "Increase tax collection sustainably" is achieved in the four strategic objectives shown below:

DGII PLAN SUMMARY DIAGRAM 2004 - 2009



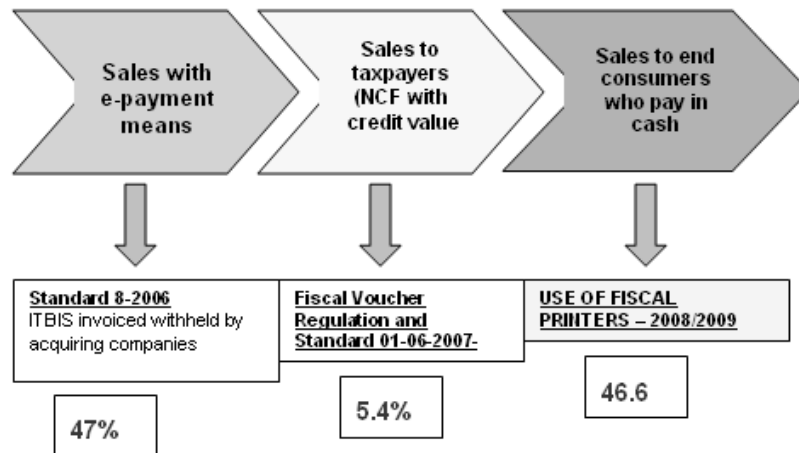
To cite an example, as part of the Objective "Fight evasion by improving tax compliance control processes, by increasing risk perception", the project for the implementation of fiscal printers in all businesses of the Dominican Republic was developed. This project is part of the group of initiatives to reduce evasion⁹, which was formulated in late 2004 and implied the execution of several projects that helped increase DGII's control over taxpayers' sales. In the case of businesses, this project contemplates the installation of some 4,000 fiscal printers between 2009 and 2010 to cover all large taxpayers in the business sector and, therefore, 80% of the sales of such sector.

The fiscal printer project has a high technological content in that both the certification/ authorization of printers meeting control design requirements and the process of implementing and supervising them requires sound technical knowledge and 100%-dedicated IT staff. The graph shows that the DGII has adopted measures to control sales in the Business Sector, with ICTs playing a fundamental role in each measure.

⁹ As for control of ITBIS [tax on the transfer of industrialized property and services], the DGII outlined 2 big projects, namely:

- Withholding 30% of VAT (ITBIS in the DR) in payments in the business sector and payments with credit and debit cards, to be made by companies processing this type of payments. This implies having access to information on the sales performed with these means of payment.
- The control of invoices (fiscal receipts), with the DGII controlling the issuance of invoices and all persons taxed with the VAT (except for persons subject to simplified systems) supporting 100% of their purchases with authorized fiscal receipts and reporting them electronically. In addition, the main 4,000 taxpayers must report income.

Sales Control Measures for the Business Sector



Another project that will contribute to the transformation of many of the TA's processes is the introduction of the digital signature in more and more documents each time. The DGII completed the development of the application module of the digital signature for tax documents, along with the creation of a courier service option in the Online Office, where taxpayer can receive their official correspondence. The positive impact of this on the documents to be delivered to taxpayers through the Online Office is invaluable. The official communication between taxpayer and the Administration will change substantially from the generalization of the digital signature.

During the next 2 years, the DGII will distribute digital certificate cards to taxpayers for access and log-in to the Online Office.

To have ICTs serve the organization, we have written a Vision that guides actions and decisions in this area towards: "Providing the DGII with the most suitable ICT platform for the fulfillment of its strategic objectives, using leading tools/equipment in the different segments of the ICT platform (servers, databases, system development, data storage development, security management and network development), to guarantee the largest availability of technological services to internal and external users, working with ethically and professionally unobjectionable people, motivated by and aligned with the organization's objectives, so that we may stand as a reference for the use of ICTs in the Dominican Republic".

This is our aim, that our IT people should feel that their actions contribute to the organizational objectives and that their decisions, however simple they might seem, have an impact on results.

There are different models for measuring the impact of ICTs on the organization. One of them is the Benefit-Beneficiary Matrix¹⁰, which allows tying advantages to efficiency, and achieved effectiveness through the investment in ICTs or the implementation of an Information System. Measuring this can show the difference between the use and the lack of use of ICTs in the organization.

Let us see two examples of the benefit-beneficiary matrix: the first one for the project of fiscal printers and the second one for the project of implementation of DGII's Online Office¹¹.

GIBSON-HAMMER MATRIX Implementation of Fiscal Printers

	BENEFIT	BENEFICIARY		
		INDIVIDUAL	DEPARTMENTS	ORGANIZATION
		Tasks Mechanization	Processes Automation	Border Expansion
		EFFICIENCY - Sales information is obtained electronically and can be exploited with data mining tools and audit Software.	- Automates the receipt of sales transactions from taxpayers.	- Increases control on tax related transactions to which taxpayers are subject. - Increases taxpayer risk perception. - Increases society's trust in the mechanisms used for evasion control.
	BENEFIT	Job Improvements	Functional Improvements	Service Improvements
		EFFICACY - Reduces mobilization to taxpayers' offices.	- Allows focusing of examination actions on specific Taxpayer accounts. - Improves the quality of the data to be exploited through information cross-referencing.	- Favors the transparency of the selection process of the taxpayers to be examined.
	BENEFIT	Expansion of the different roles	Functional Redefinitions	Product Innovation
		EFFECTIVENESS - Allows Auditors increase the analysis spectrum, as necessary, with the possibility of verifying taxpayers' historical behavior, trends and projections.	- Transforms the methodology from examining paper registries to examine electronic registries. - Guides examination tasks to information cross-referencing. - Auditors' task assignments is done more effectively.	- Printer models certification, more directly through the Manufacture, directly. - Examination cost reduction. - Reduction in the risk of bribe attempts by reducing the frequency of in person visits and have results forecasts.

¹⁰ It refers to Gibson's and Hammer's Matrix.

¹¹ Although these Projects do not obviously concern ICT exclusively, the IT staff dedicated to support them is very important, as well as the role played by the decisions on architecture, infrastructure, etc.; which are vital.

GIBSON-HAMMER MATRIX Implementation of a Virtual Office

BENEFIT		BENEFICIARY		
		INDIVIDUAL	DEPARTMENTS	ORGANIZATION
	EFFICIENCY	Tasks Mechanization <ul style="list-style-type: none"> - Taxpayer is responsible of inputting their return information. - Payments receiving process outsourced to banks. 	Processes Automation <ul style="list-style-type: none"> - Personalized notices to taxpayers. - Service requests. 	Border Expansion <ul style="list-style-type: none"> - twenty-four hour service (7 days a week). - The possibility of complying with formal duties from any place in the world with internet access. - Virtual extension of attention schedule on return filing dates and payment dates. - Guarantee of quality as well as the timeliness of the information.
	EFFICAC	Job Improvements <ul style="list-style-type: none"> - Significant reduction of the volume of Taxpayers requiring attention in person. 	Functional Improvements <ul style="list-style-type: none"> - Significant reduction (with a trend towards eliminating) of the respective tasks inherent to the Compensation and Cashier process. 	Service Improvements <ul style="list-style-type: none"> - Reduction in compliance costs. - Reduction in attention times. - Elimination of queue waiting times. - Elimination of intermediaries (advisors, messengers)
EFFECTIVENE		Expansion of the different roles <ul style="list-style-type: none"> - The Cashier / Settlement Role is transformed into a Control Role 	Functional Redefinitions <ul style="list-style-type: none"> - Local Administration functions are transformed from collection areas to control areas. 	Product Innovation <ul style="list-style-type: none"> - Integration with Commercial Banks - 100% Real time transactions. - Single services platform in the Public Sector. - Reduction in collection costs.

To corroborate the results presented, let us see some statistics on the implementation of DGII's Online Office from 2006.¹²

- a. Until 2005, no electronic tax return was received by the DGII. In 2008, 80% of the VAT returns and 75% of the income tax returns were received electronically. If the figures pertained only to Corporates, they would be 90% and 85% respectively.
- b. From 2007, when forwarding the purchases journal and the turnover of the main 4,000 taxpayers was made obligatory within the frame of the Project for Control of Invoices or Fiscal Receipts, 90% of the data from VAT taxpayers and 100% from the persons subject to declare income were forwarded through the Online Office.
- c. 82% of taxpayers who submit a tax return have an access code to the Online Office.
- d. According to a survey of Online Office users performed during the period February-March 2008, 99.7% of interviewees think that the Online Office facilitates their fulfillment, and 81.9% report to have cut down tax fulfillment costs.

¹² Data as of December 2008.

In a broader context of the use of information exchange mechanisms through the Internet, 90% of ITBIS and Income Tax payments are made through the Banks, which connect to the DGII to apply them directly to taxpayer's Current Account. So, we have taxpayer data updated on line, with late payment control management depending only on the capability to follow up these non-performances.

Another way to measure the degree of alignment of ICT projects with the organization's strategic objectives is by distributing them as per the objective they pursue directly. For example, 70% of the projects implemented or conducted by DGII's IT Management over the last 5 years can be situated within one of the DGII's strategic objectives. The rest of the projects correspond to investments required to strengthen technological performance, allowing the DGII to have a robust platform. Hence, in 2008 the DGII inaugurated a Data Center that meets the requirements of international standards as to mechanical, electronic, architectural, security and communicational aspects, ranking third out of four, depending on each component¹³.

This goes to show that the DGII has gone from being an organization based on manual procedures to one whose actions find in ICTs its best support. This causes an evolution in the development of ICT use, from executing projects for the benefit of individuals or work positions or functions and departments, to executing projects that transform the organization.

In general, the DGII's achievements in ICT-based projects have impacted favorably on the way of doing business in the Dominican Republic, as recognized by the World Bank in its 2009's survey on the modalities of doing business, called Doing Business. This study puts forwards:¹⁴ "The Dominican Republic is a global and regional transforming leader; it has speeded up the performance of diligences in several areas that can now be performed electronically. A system of tax return completion and tax payment, which began as a pilot project in 2006, is now in full operation. And businesspersons

¹³ *The Data Center has been designed in accordance with the international standard ANSI/TIA-942, regarding the Telecommunication infrastructure of Data Centers. This standard categorizes data centers in four layers. Hence, the center can be qualified as a Basic Level Data Center if it has no redundancy level; with Redundant Components, Concurrently Maintainable Data Center and Failure-proof, depending on mechanical, architectural, electrical, security or communicational aspects. We currently rank 3rd as to mechanical, electrical and communicational aspects, and we are working on a Contingency Center that will allow us to position ourselves in a higher level of the Standard.*

¹⁴ *The English text reads: "The Dominican Republic also reduced the corporate income tax rate from 29% to 25%, and abolished several taxes, including the stamp duty. The cost of property registration fell, thanks to a reduction in the transfer tax from 4.3% to 3%. Transferring property now costs 3.8% of the property value, down from 5.1%. In addition, authorities reduced the time to export by three days by improving the online portal for customs documentation and payment."*

can complete diligences on line, including trade name verification..." The country went from ranking in the 139th position in 2008, to the 72nd position in 2009 in the Tax Payment category.

This represents a concrete way of impacting positively on the country's performance, improving tax-related aspects.

Converting Information and Communication Technologies into a tool at the service of Tax Administrations will depend on the ability of our organizations to integrate them to their strategic plans, so that IT specialists may have a framework that allows them to make adequate decisions in line with the organization's objectives; the capabilities of tax authorities to assume the challenge of transforming ICTs into a transforming element, and a legal framework apt to promote the use of technologies to transform processes.

With technologies allocated to the goals defined as strategic by the Tax Administration, we can try to improve tax fulfillment levels while at the same time impact positively on the TA's positioning within the society.

Tax Administrations have the opportunity to become a reference for the efficient use of ICTs to improve services, reduce operating and taxpayer costs and attain increasingly transparent management. Given its interaction with the production sectors of a country, it may become an entity that generates changes in the behavior of companies and its decisions can be used as triggering factors to "induce" the use of ICTs in the production sectors. In other words, the good use of technologies generates a substantial change in our organizations, both inwardly and outwardly.

In the case of the DGII we can affirm that everything has changed:

Virtually no tax return and payment documentation is processed at our offices because this is received through the online office and the banks; the details of taxpayers' purchases and expenses can be received electronically and are available in a Cross Information System; digitally-signed documents are being incorporated into tax processes; cross-information computing systems have allowed widening the coverage of examination actions based on the information produced; every employee performing a technical function is provided with a computer to perform their tasks.

Undoubtedly, over the last years the DGII has undergone important transformations.

Case study

Topic 1.1

STRATEGIC PLANNING OF THE ICTS: DILEMMAS POSED BY THE CURRENT ENVIRONMENT

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SUMMARY: 1. Introduction.- 1.1. The role of IT in TAs.- 1.2. AFIP's experience in IT planning.- 1.3. Plans and actions.- 1.4. AFIP today.- 2. Restrictions to planning.- 2.1. The most important technology projects are long-term.- 2.2. The technology available changes continuously.- 2.3. Acquisition terms are not predictable.- 2.4. Human Resources are given.- 2.5. It is nor possible to anticipate the entire demand.- 2.6. The industry and the organizations have different interests.- 2.7. The IT-Business Relation is Conflictive.- 2.8. TA have a starring role in the Public Administrations.- 3. Planning Guidelines.- 3.1. Maintain the Infrastructure.- 3.2. Standardize.- 3.3. Data Management.- 3.4. Explore technological evolution and the business.- 3.5. Strengthen human resources.- 4. Conclusions

SUMMARY

For decades, Information and Communication Technologies has become an important tool in the tax administrations' day-to-day activities. In recent years, rapid changes in this field have placed in center stage the provision of IT services, demanding planning and management practices nothing like traditional ones: more efficient, more adaptable and very fast responses.

As the majority of public and private organizations, in past years ICTs have gone from being central for the traditional administrative and operational functions, to also cover the complexity of the direct relation with society. This is no small step, because to put IT services "out of the office" to be accessed by its own users as well as by external users requires a degree of criticality and sophistication higher than the traditional.

The dynamism built-in tax administrations as well as modern collection and examination strategies must also be added to this structural demand. In the case of AFIP, because of its single agency structure, we must add the growing demands of foreign trade, where technology is presented as a solution in the quest for balance between control and facilitating international trade.

The accelerated production and marketing of technology causes constant changes in costs and availability. This represents an advantage, but at the same time it makes planning significantly more complex. All these conditioning factors are also embedded in an unstable world economic context - to say the least. This context stimulates the creation of many measures with short planning processes, as well as disruptive practices in respect of the style implemented and obviously, budget reductions.

ICTs strategic planning is positioned as a fundamental aspect that must guarantee soundness, security and flexibility, to adjust to the dilemmas of the environment and potentiate response and service capabilities for the organization's objectives. Consequently the objective is to establish the correct ICT strategy in the short, medium and long-term, by continuing with timely, organized and coherent response capacities to requests which in general are uncertain, unplanned and are made in a changing context.

By analyzing AFIP's planning and actions since 2002, which is the time of substantial growth for the organization, we have set forth a series of guidelines that summarizes the strongest ideas used in IT planning. All guidelines developed here have been proven for many years and we are convinced that, although simple, have been determinant in the radical change that the provision of IT services has experienced.

As it will be seen herein, AFIP is an innovator in the planning criteria used, and in applying the same management criteria used in large and well-structured companies. Unfortunately, the solution to the planning problem stated is not attained through the simple adoption of an innovative methodology; the slow and constant application of basic and realistic rules is mandatory.

1 INTRODUCTION

For decades, Information and Communications Technologies has become an important tool in the daily activities of the Tax Administrations (TA). In recent years, rapid changes in this field have placed in center stage the provision of IT services, demanding planning and management practices nothing like traditional ones: more efficient, more adaptable and very fast responses.

As well as for most public and private organizations, in recent years Information and Communications Technologies (ICT) have passed from being central to the traditional administrative and operational functions, to also cover the complexities of the direct relation with society. This is no small step, because to put IT services "out of the office" to be accessed by its own users as well as by external users requires a degree of criticality and sophistication higher than the traditional.

The dynamism built-in tax administrations as well as modern collection and examination strategies must also be added to this structural demand. In the case of AFIP, because of its single agency structure, we must add the growing demands of foreign trade, where technology is presented as a solution in the quest for balance between control and facilitating international trade.

The adoption of Electronic government plans in effect in every country, demanding the publication of services to be accessed by society, compliance with of One-Stop and Registry Simplification¹ principles, where the TA have had in general an emblematic role within a set of restrictions and additional burdens to the administration and planning of the ITs.

The accelerated production and marketing of technology causes constant changes in availability and in costs. This represents an advantage but at the same time significantly complicates planning. Processes that are further influenced by very aggressive commercial logics, especially for large consumer organizations, are overwhelmed with technological bubbles, immature products, success cases that become universal laws and arbitrary standards.

¹ The principle of "Registry Simplification" states that the data required from an organization be informed once and cannot be requested again from any of its branches except to be updated and complemented, the "One-Stop" principle requires the administration to present itself to its users as a single unit, avoiding the need of knowing the internal structure.

The instability of the global economic environment which stimulates the generation of measures with little planning, the adoption of disruptive practices in regards to the style implemented and obviously, budgetary reductions must be added to all these conditioning factors.

ICT strategic planning is positioned as a fundamental aspect that must guarantee soundness, security and flexibility, adjust to the environment's dilemmas, potentiate response capacities and service the organization's objectives. The challenge is to establish the correct ICT strategy in the short, medium and long-term, maintaining timely, organized and coherent response capacities against requests which in general are uncertain, cannot be planned and in a changing environment.

There are many strategic planning methodologies that may be a great support to carry this process ahead. The advantages of one over the other are in general subjective and circumstantial, more based on commercial than professional practices. There are also countless quality documents as well as an enormous consulting offer for their ownership, therefore, the intent of this paper is not to contribute one more.

By analyzing the planning process and the actions carried out in AFIP from 2002 to 2008, during this period the organization grew substantially, we defined a series of guidelines which summarize the most robust ideas used in IT planning. These guidelines are mainly focused on recognizing the reality, that is, to know it, understand it and act consequently, as a starting point for planning, instead of leaving the weight thereof in the use of general methodologies.

Restrictions and opportunities posed by acquisition processes are analyzed under this vision, as well as rigid human resources guidelines, the complexity of the relation between the business and IT areas and the function of IT goods and services vendors. Furthermore, the application of a series of IT planning guidelines are proposed in order to generate a response capacity to the unplanned demand for services, one of the most enrooted characteristics of this context.

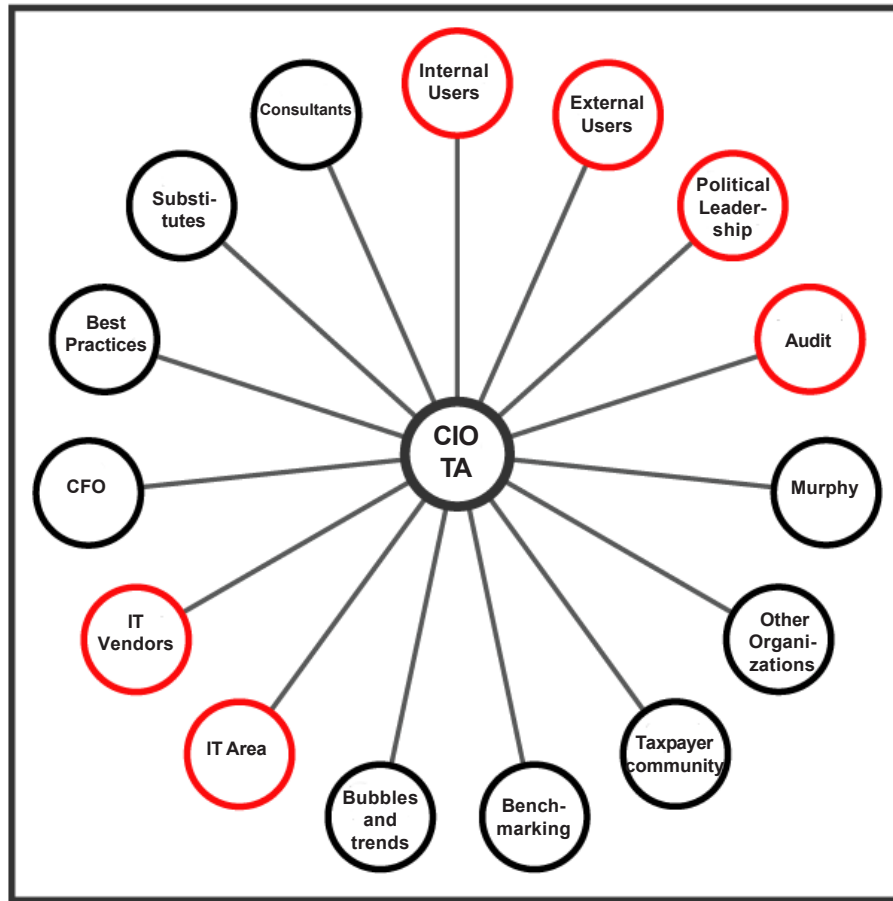
As implied by this paper, AFIP has not been innovative in the planning criteria used; the same management criteria applied in any large and structured company have been used. The solution to the aforementioned planning problem is not obtained by the simple adoption of an innovative methodology, a slow and constant application of basic and realistic rules is necessary.

Under the experience analyzed, IT strategic planning in complex organizations in changing environments can be summarized as follows:

- To know the reality and act consequently.
- To establish a very basic set of long-term guidelines.
- To carry out permanent maintenance, with mid-term cyclic reviews, to assure available capacity to face unplanned, but solvable IT service requests with known technology.
- To have an agile but traditional short-term activities program.
- To incorporate institutional practices to mitigate unplanned requirements, that needs unsuitable technologies.

1.1 The Role of IT in TAs

The role of the CIO in public and private organizations has been discussed in countless papers and meetings. The case of the tax administrations poses some variables, but at a certain aggregation level, it follows the general rules. The following graph is only for introduction purposes and the same summarizes the position of the CIO in a TA in regards to the external and internal forces that they must face when planning the organization's IT strategy. These elements are considered explicitly and implicitly in all the planning guidelines presented in this paper.



These elements are well-known by all CIOs; however, some differences can be identified in the case of the TA. First the CEO has been changed for "Political Leadership" in the broad sense, because by nature the function is usually under the influence of the government's political Leadership in a broad sense, with all its consequences.

Second, the influence of external organizations of the Administration are highlighted, those belonging to the "taxpayer community" as well as those that do not belong to the Administration. TA are often progressive organizations in every sense, and specially in technological issues, in general they have the largest amount of resources and often have a key role in the public administration, which mandates they provide services that are not strictly related to their substantive functions.

1.2 AFIP's Experience in IT Planning

In 1997 the merger of the Internal Revenue Service (DGI, in Spanish) and the National Customs Administration (ANA, in Spanish) and later the Social Security Fund Administration (INARS) created the Federal Public Revenue Administration (AFIP, in Spanish). One of its priorities was to analyze the business and information technology (IT) plans of the organizations that were merging, adopting as strategic objectives information technology integration and the recovery of its independence. The general objective that in the organization IT [department] should endeavor the modernization of tax and customs' management, with the ensuing increase in the levels of efficiency and transparency was established.

Since its creation, AFIP performs an important role in Argentina's economic and social context, because of the nature of the activities it performs in the tax, customs and social security fields, because of its geographical coverage and the responsibility implied when intervening in the collection of resources representing one fourth of the GDP, significantly contributes to the country's strengthening.

Because of the single agency organization structure and its emblematic role in Argentina's public administration, AFIP has incorporated into its day-to-day activities many objectives which transcend the distinctly collection function. This situation is often necessary to respond to the demands and challenges that arise as a result of context changes. Consequently, some functions have gradually increased in importance such as, foreign trade control to protect national industry, the control of non-economic prohibitions, such as drug trafficking and brand counterfeiting, the search for greater social inclusion of all citizens, the promotion of transparency in the public administration, the development of national and international cooperation networks and the undertaking of the role of leading institution in electronic government and IT service provider.

Since 1997 AFIP has been promoting an active and explicit policy of potentiating the relation with society (specifically, but not exclusively, with its direct users: taxpayers, customs officials and social security resources) through the incorporation and intensive use of ICT. This service policy is explicitly stated in the organization's management plans, and it is a strategic objective: "Improve taxpayer and customs' user services to promote voluntary compliance with its obligations ... increase the quality of the service [and] ... promote the use of new technological tools." Ten years after its creation, the complexity of the services provided the volume of the transactions, processing capacity, IT network and the processes established thanks to integration with other organizations; turn it into one of the country's main technological leaders of the country and a point of reference in Electronic Government development. (AR/AFIP, 2007)

The massive opening to society through Internet continues being a premise in all the actions carried out by this Administration, with the purpose of providing all services through the institution's portal or through interaction between IT systems for the relation with companies and other organizations. But it is not limited to promote access through the Internet but it seeks a more profound transformation of the management, which increases efficiency levels and grants transparency to public acts, to respond quickly to the needs of the population assuring its rights. This transformation requires the articulation of a complex relation between technology management, process reengineering, organizational restructuring, regulatory adjustments and cultural change. These changes directly impact the organization and drive and promote similar changes in its scope of influence, in other institutions as well as in society itself.

1.3 Plans and Actions

The aspects mentioned in the strategic plan were possible in 2007 thanks to the maturity reached by the organization - and by IT area - since 2002. This situation is supported in the work developed between 1997 and 2001 marked by the merger process and the proliferation of strengthening projects financed by external resources. The situation at 2001 may be described in the following manner:

- Until then, not many tax services were offered through Internet.
- Return filing as well as social security filing was computerized, but received at banks.
- The customs system operated electronically, but not through the Internet.
- The organization did not show citizens the contents of its databases.
- In there organization there were 6 central and autonomous development and Systems operations areas, over 130 small computer centers throughout the country, all hierarchically dependant of the different areas.
- Multiple system architectures, methodologies and development and operation platforms, almost one different per system and computer center.
- Systems operators worked completely independently, each with its own central databases.

Towards the end of 2001 - during a profound economic crisis in Argentina - the guiding principles that would mark the organization's strategic plan as well as the activities carried out by IT were outlined; these are summarized as follows:

- Massively steer the organization towards the Internet, in a short period of time, all tax, administrative and customs services could be provided through the Internet.
- Massively implement G2B and G2G services for the relation between AFIP and the companies and other State agencies.
- Deliver all services with high levels of reliability: 24/7 with zero maintenance and 99.9% availability commitment.
- Implement the principle of transparency regarding the display of the contents of the organization's databases.
- Implement mechanisms that facilitate economic activities such as one-stop transactions, Electronic invoicing, electronic certificates, etc.
- Real time integration of the organization's customs, tax, social security and administrative systems from its databases.

And finally an institutional policy that must be taken much into consideration, since it determined a very particular management style: "Total IT reform must be done with the organization's current human resources," leaving aside the possibility of outsourcing or the contracting of consultants to perform tasks. Many actions carried out could have been done completely different if this guiding doctrine would have not been established.

These guiding ideas were materialized in medium and long-term plans that achieved the following:

- Develop new services under the direct interaction system with citizens through the Internet and real time integration between applications.
- Develop a new highly integrated, stable and reliable system that allows to sensibly improve the organization's operational and control functions.
- Achieve total integration of existing systems and databases are updated in real time.
- Implement a single user authentication and authorization system following the e-authentication model applicable to all Systems and fit to support several million identifications.
- Implement a unique architecture system, homogeneous, stable and controllable for all the organization's systems.
- Standardized systems development platforms.
- Apply uniform development methodologies.
- Unify and strengthen the telecommunications network.
- Implement tools and monitoring practices for all services provided.
- Define and develop the Web Services standard for the provision of G2B and G2G services through a single technology.
- Increase detection, diagnostic and problem and incident solving speeds.

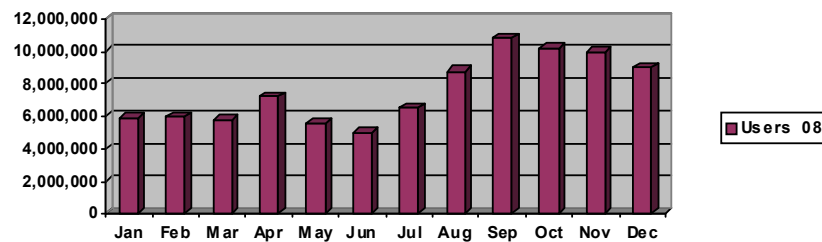
TOPIC 1.1 (Argentina)

- Potentiate the IT and telecommunications structure to measure and meet committed services levels.
- Carry out the reengineering of pre-existing systems to adapt them to new architectures.

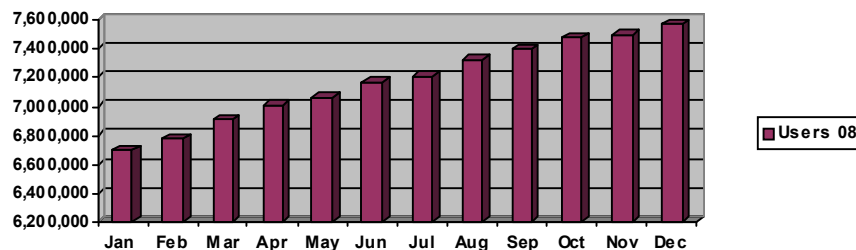
1.4 AFIP Today

The purpose of this section is to present, by using indicators, the results obtained by AFIP thanks to AFIP's IT plan deployed between 2002 and 2008. The graphs hereinafter are a sample and the data of the same have been taken from the Management Systems or the datacenter's monitoring system (AR/AFIP, 2008).

First, to dimension the visits to the AFIP's virtual face, the following graph shows the average daily hits at www.afip.gov.ar. During the last months of 2008 there were almost 10 million hits:

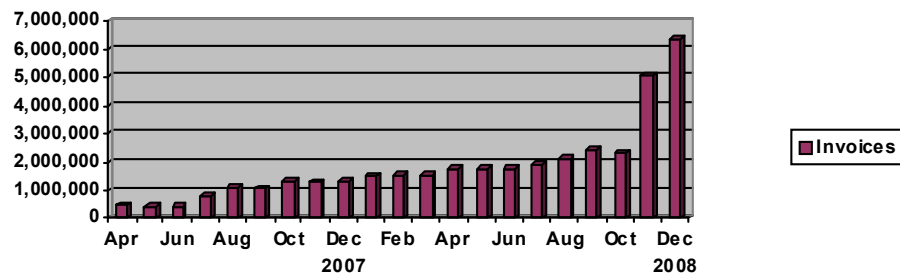


The following graph displays the amount of single and active fiscal passwords during 2008; this allows perceiving continuous growth in spite of the maturity taxpayer's identification system, reaching 7.5 million in December 2008².

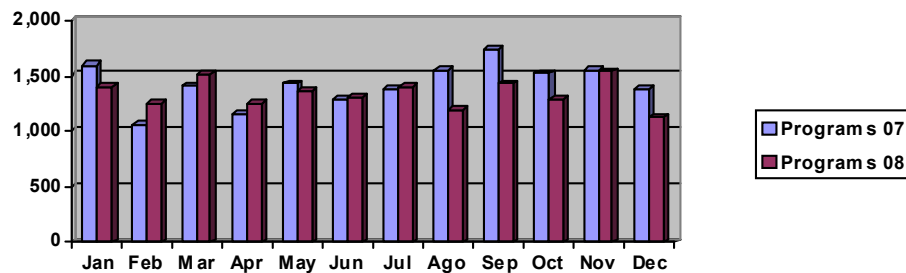


² Argentina's population is around 40 million inhabitants.

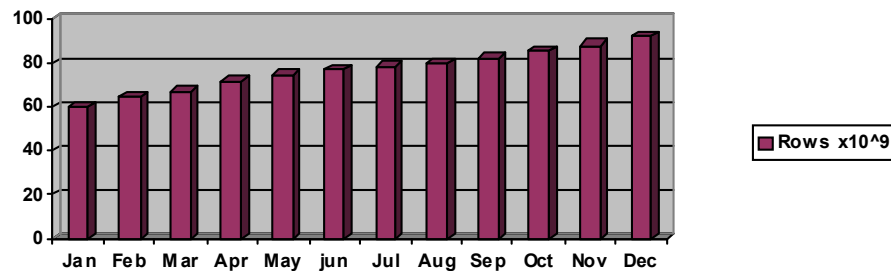
Only as an example of the direct services provided to facilitate economic activities, the following graph shows the growth of the authorization to issue electronic invoices since their implementation in April 2007. Durante 2008 growth was 420%.



As an indicator of the activity in systems' development, the following graph shows the amount of services put into production at the servers of our datacenter, and collected by the Production Operation System:

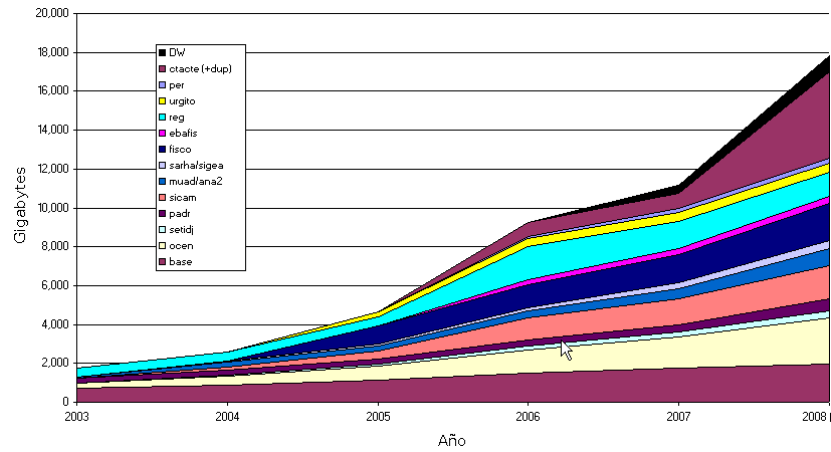


The amount of data managed at the datacenter grows continuously, the following graph shows growth in the number of rows persisting in the central databases, which in 2008 denote an almost 50% growth. Data is expressed in thousands of millions.

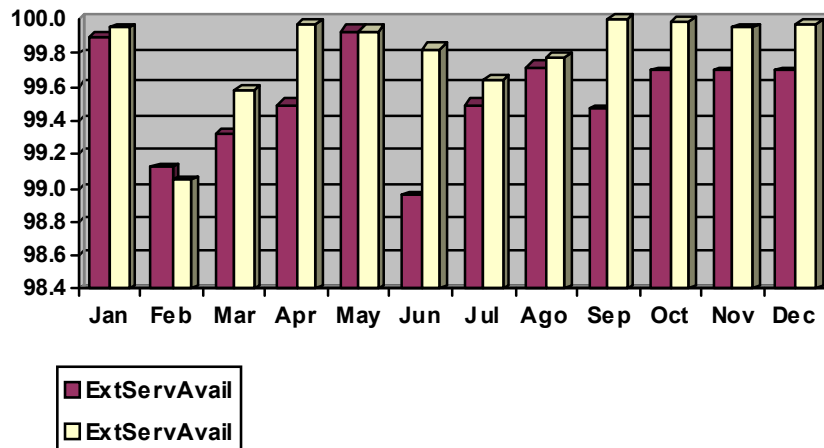


TOPIC 1.1 (Argentina)

Obviously storage accompanies this growth, as it can be seen in the following graph which shows the growth of the space occupied by the databases of the different servers in production. In 2008, 60% growth is seen:



The following graph shows the availability of the services offered through AFIP's datacenter.



Finally, the distribution of personnel in the TI department (Deputy General Directorate of Systems and Telecommunications) is as follows:

Area	Amount of Staff	% total
Deputy Directorate and advisors	14	2
Operations	178	24
Security	34	5
Communications	48	6
Technology	22	3
Resources	28	4
Tax IT	130	18
Examination IT	52	7
Customs IT	84	11
Social Security Resources IT	64	9
Legal and Collaboration IT	31	4
Administration IT	55	7
Totals	740	100

2 RESTRICTIONS TO PLANNING

The first step for good planning is to know the start point and the organization's current context. To attain a target situation steps cannot be planned until knowing the starting point and the conditioning factors that allow pre-establishing the steps to be taken in advance.

Many planning methodologies especially those proven in the private sector, start from structural suppositions that are not valid throughout the public sector. For example, the necessary resources can be acquired when needed, most requirements are anticipated sufficiently in advance to plan them in the medium-term; long-term guidelines are almost invariable, and decisions to carry out a project go through ROI.³

Planning methodologies and Technology Management Reference Frameworks are highly useful tools, but are general and respond to a rational model. Their use will be determined by their adaptation and trimming pursuant to the restrictions of the context where they must be applied. The blind application of generation methodologies does not guarantee good results.

In this section an explanation of certain context characteristics that require more work will be stated. Many of these guidelines result obvious and known by all, but it is curious to see the frequency with which they are ignored when planning. When the reality is not the desired one, the adequate mechanisms must be activated to attempt to change it, but meanwhile, these are the characteristics that determine the context in which planning must be carried out.

³ *Return of Investment: calculate the financial return of an investment.*

Some of the restrictions to be analyzed are general for any IT area; others are more inherent to the TA, although they may not be for all. The structure and composition of the agencies of the different countries are very different as well as policies supporting the same. Therefore, we select and present herein those which we consider to be the most important for the AFIP in its context and during the period 2002-2007.

2.1 The Most Important Technology Projects are Long-Term

Technology ownership by organizations is a slow and costly process. Direct and indirect costs, foreseeable and unforeseeable appear, some are anticipated and others are not. Organizational reforms may be required, changes in cultural guidelines, strengthening of human resources, changes in the building and indirect acquisitions. The acquisition of a tool, for the IT area or for the business, only begins the ownership process. The complexity of the entire process will depend much of the characteristics of the tool and the context, but may require longer implementation terms until its effective ownership.

It is not always easy to accept, undertake, explain and maintain long-term projects in changing contexts, as the Latin American contexts. The continuity of the will and assignment of resources to face these projects must go beyond economic and political cycles, and the CIO and the entire institution must face this challenge. But whilst operations must continue, activities and planning cannot be suspended while the context is unstable.

Examples abound, but the construction of the datacenter stands out as an obvious case. From its conception until it was operational and stable under the control of the personnel of the administration, approximately five years elapsed, this term was beyond the normal presidential term. As another less obvious example, in the drive to organization the development process and adapt it to the best practices on the issue a solution for the quality control of the software process was purchased. In this case, from its conception until the end of 2008 three years have elapsed and its functionality has not been entirely adopted by the six software development areas.

2.2 The Technology Available Changes Continuously

Variations of cost structures, the quantitative increase of availability, the decline in relative costs, the demand for greater administration resources, the innovative application of known technologies; these are the coin of the realm in the daily lives of people as well as in the management of high-level technology in complex organizations.

Predict qualitative growth is difficult due to the variation in the demand and the variation in the supply. To buy much of something in short time, is often not a good investment, because in the short or medium-term relative costs change significantly. To buy in function of the demands and the planning of the expected use, often results in great variations. It seems that there is nothing else left to do than to continuously monitor supply and demand and take advantage of the opportunities. But acquisitions, as we will see, not always have the desirable speed.

For example it is enough to analyze the relative cost of storage, but in parallel the increasingly growth of the needs thereof must be analyzed, i.e. space. Four years ago the big problem was the management of physical space which was already complete. In the past two years with the shrinking of the components, space ceased to be a problem but now temperature control is the problem, since the new components generate much more heat than the previous components.

2.3 Acquisition Terms are not Predictable

Goods and services acquisition processes are - in general - unpredictable in the Public Sector. Regardless of how much institutional bureaucratic processes are adjusted, there are countless internal or external factors that may delay and even block acquisition processes. This goes against what is usually advised by best practices, which provide that the expected results must be established, actions to be developed to obtain the same must be planned, the necessary resources must be estimated and then the inputs missing to carry them out must be acquired. If this is done, delivery terms of the results will be dependant of acquisition terms and if these are unpredictable, the results will also be.

The initial phase of the technology acquisition process may be more or less lengthy depending on the complexity of the solution sought. This stage ends with the RFP evaluation by the ruling agency, which may object or observe the text in function of national policies. Then you must consider administrative times for their publication in the list of specifications for the bid, the attention to inquiries, the evaluation of the bid offers and the assignments that are known, nevertheless, there can still be surprises. At this stage spurious or legitimate challenges often appear, as well as the commercial variations of the vendors, price variations vis-à-vis projections, technological updates, etc., can affect the times forecasted. Once the selection process has successfully concluded, the acquisition process takes place and the same may be delayed due to budgetary problems, which in some circumstances, cause considerable time delays.

There are countless examples, but we must also consider the massive acquisition of PCs, a highly standardized asset, in some cases their acquisition was solved in less than six-months but in other cases, it took three years.

2.4 Human Resources are Given

The Public Sector unlike the private sector has more restrictions when incorporating, renovating, training, promoting and incentive its human resources. These restrictions limit the speed to respond to new demand or to approve new technologies. As a counterbalance, these resources often have a know-how which is not easily replaceable and stability guarantee which in determinate economic contexts, are often advantageous.

Complaints on the unmotivated and not well-run human resources of the public sector are understandable in many IT areas. But, the solution does not wait for the structural aspects of human resources management to change in the public sector. It is necessary to assume existing resources, promote slow training and reconversion processes, seek stimulus that will drive good professional development and apply leadership guidelines which motivate proactive participation

In AFIP there has not be an important exodus of staff, retention rates are high. With time personnel has incorporated often willingly and other times by an outside decision. Many times there were personnel assimilations determined by merger processes or compulsive contracting without prior requirements. These people, incorporated in this manner, should have been assimilated by the structure, demanding large adaptation efforts from both parties.

2.5 It is nor Possible to Anticipate the Entire Demand

True unforeseeable events in addition to the cultural lack of prevision and the spasmodic development of projects are usual in the public administrations, especially in developing countries or in times of crisis. Examples of public policies requiring technological support, generated or modified without measuring the impact that they may have in the areas are also common.

Many of these demands cannot be planned for the coming year and include them with time in the budget and in the strategic plans, you simply have to attend to them. Obviously there is substantial difference between the request for services that can be solved by the installed capacity and aligned to institutional practices and those that cannot be solved. This position reinforces the idea of generating the service provision capacity, without knowing with certainty which will be the demand.

Once again examples are countless. The Single Tax was technically generated in the organization as a case of simplified system of tax burden for small businessmen, when it passes to the congress for its approval; it is extended to independent professionals with a very different taxation logistics. There is also the case of SICAM, which passed to be an Internet debt inquiry to a financed payment simulation system. Another more recent example that we can mention is the enactment of whitewashing of capitals, a measure that completely disrupts the policy applied for years of not using moratoriums or other types of techniques leading to the standardization of historic tax failures.

2.6 The Industry and the Organizations have Different Interests

The presentation of the IT industry to public administrations such as "business partners" has already been abandoned as a slogan and has been replaced by a more adequate "technological partner", always attempting to get away from the vendor-consumer. Indicators marking the direction of technological goods and services vendors and those of the public administration are conceptually different. Obviously good alliances can be established, by interests are different and this determine tensions in the relations. Not only by the different actors by the production logic itself as well as the technology marketing established in the world, which causes immature products to be promised and to offer products without knowing how to value their usefulness and promote the acquisition of little use products.

Tax Administrations are very attractive potential clients because of the technology ownership needs and the resources they manage, but are far from being investigation and development entities. The industry cannot ignore this, but its place must be assigned and worked to establish a healthy relation for both parties. The need of the companies to increase their profitability and meet its business plans cannot be ignored, but not at the cost of increasing agency costs. Especially in times of declining economic activity, tax administrations become interesting clients, the focus of all vendors.

As a short example we can mention the advertising relating to Web Services in 2003 when AFIP investigated it use for G2B and G2G relations. The industry offered Needles benefits, but when testing them they lack the most Basic reliability and security characteristics which we must supply with our own investigation resources. Some years later the same happened with BPEL.⁴

⁴ *Business Process Execution Language.*

2.7 The IT-Business Relation is Conflictive

Approximately sixty years ago the most conflictive point of the task systematization process is the definition of requirements by user areas and its thorough understanding by IT areas. A clear example of this is the profusion of methodologies that are generated year after year. The increase of public knowledge on massive use technology has not, in general improved the situation. Sophisticated software engineering practices to formalize the management of requirements, the modeling, development and the testing of the users' satisfaction not always has an acceptable cost-benefit equation, but its non-adaption lacks one as well. Many formulae have been attempted and we will surely test many more.

Meanwhile you must continue making systems as best as possible. To wait to find the methodology and the players that allow a definition of development free of questions is today utopia. This problem is sufficiently studied and proven. Specific examples are not required to clarify the same.

2.8 TA Have a Staring Role in The Public Administrations

In general, Tax Administrations have an emblematic role in public administrations, which has heavily increased in the past years because of Electronic Government plans. The TA-Taxpayer relation (and the customs user in some cases) has been one of the virtual relations that is worked the most in the past decade, due to the nature of collection, the availability of the resources and the technological immaturity of the responsible organizations.

In many cases this trigger has lead Tax Administrations to adopt problems that are not its own, such as the Management of the digital gap, the participation in the formulation of GE plans which affect the entire state, the assistance to organizations that are more behind, etc. You must also add to this the contribution to the implementation of the interoperability to comply with the One-Stop and Registry Simplification principles.

AFIP has suffered a growing demand for the provision of services and technical assistance from all types or organizations, from the three powers, the three administrative levels, from organizations with related businesses and others that are not related. The availability of resources, the installed capacity, and the experience acquired make these transfers of resources difficult to reject, especially when you consider the one-State vision.

These demands produce strong tensions in the web-type model with hierarchic structures and the analytic distribution of functions and the relational models that provide new state organization trends. Many actions and their

corresponding resources assignment can be qualified as questionable or dysfunctional under the institutional vision as well as, praiseworthy and beneficial under a more ample vision.

Therefore, it is important to assume the growing existence of the demand and to act consequently. It is important to consider these organizations as external services users and consider them in the provision of resources. To respond to some demands requires the implementation of practices that not common in the IT government areas such as the provision of technical assistance to third parties. In this process, it is necessary that the organization follow-up and understand these actions, specifically the business and audit areas.

AFIP currently provides hosting and housing services in its data center, as well as user authentication services, tax collection services in the name of sub-national tax agencies, development and transfer of technical assistance applications and processes for many public organizations. The case of the transfer of SARHA (AFIP's Human Resources Administration System) which has required the formation of a structure area operating as a Consulting firm that serves many "clients" without receiving any monetary compensation in exchange is noteworthy.

3 PLANNING GUIDELINES

The purpose of this section is to present the generalization of the IT strategic planning guidelines that AFIP used between 2002 and 2007. The aforementioned must be taken into consideration in regards to the institutional policy stated, in Argentina's political-economic context, and AFIP's characteristics as a TA.

To meet with the strategic planning objectives, in addition to knowing the restrictions of the context, we must understand the nature of the demands of the new services that the IT area must attend. There are many different approaches to the issues, but in this case we will use a simple characterization of the requirements by two orthogonal variables:

- A qualification in function of if they are or not advanced with sufficient freedom to adjust commissioning times in function of prior development activities and the entire work load generated by other demands.
- A qualification in function of whether they can be generated and supplied with technology that is already owned by the organization. By ownership technology we understand that is not only known technology but that it is used throughout and for which there are the

necessary resources associated to its use. In other words, it is one of the forms in which the organization already knows how to solve demands and it has the resources to do so.

This double qualification allows us to build a simple double entry table with the following:

IT Services Requirements	Servable with the appropriate ownership technology	Require new technology
Can be planned	Traditional planning and capacity estimating	New projects generation
Unforeseen	Maintain response capacity	Mitigate

We have titled crossing cells with the type of response to each combination. On the requirements of the first row there is not much to be said that is not written in a many recommendations and that the entire mature organization already manages. In the unforeseen requirements is where we will focus on how they have been treated by this administration.

The first position is to assume that the nature of the unforeseeable is by the nature of the function, not by the occurrence of the requirement in itself. Therefore, we know with certainty that it will occur, what we do not know is their functionality and we can only estimate the demand for the resources it will generate. Maintain an adequate response capacity to face these requirements is the essence of AFIP's applied planning in regards to unforeseen requirements but which can be served with the appropriate technology. Regarding the unforeseeable and not served requirements, with the appropriate technology, certain guidelines are applied for their mitigation. In their conception they are also guidelines to maintain an installed capacity to provide response, but different from the necessary for the previous case.

Therefore, to establish and maintain the capacity to generate and systematically provide services without collapsing business areas, IT area, data center, assuming that a good part of the requirements are not predictable in time or in effort; this is the central challenge of IT planning. This vision of planning presents few inconveniences. Instead of supporting the objectives based on the concrete demands of the external users, they must be supported on their own growth and technological extrapolation criteria. This situation is assumed by the TI area, but must be institutionally understood

by business areas and especially by the finance and audit areas that must accept justifications of this nature.

To generate capacity to face unforeseen demands must be faced from various aspects, as we will see herein. The following recommendations are generalizations of guidelines used by AFIP's IT area to meet the objective of maintaining the stated response capacity. The different aspects are presented separately, but there is a very high relation amongst them, which must be coordinated and aligned to have the desired effect.

3.1 Maintain the Infrastructure

A central aspect of the capacity to generate and provide services is based - obviously - in the availability of infrastructure resources for processing, storage and communications:

- The growth of processing needs, especially web-based transactions, was mitigated with the use of farms that allowed horizontal scalability with small-size equipment. Central processing was attended with large processing units for which vertical scalability was assured.
- Online storage and safeguarding needs has increased considerably in recent years thanks to the massive computerization of services. At the same time, the offer of storage devices continues to become, in relative terms, cheaper. Whichever way, acquisition planning and the renewal of storage resources become complicated, because excessive acquisitions may play against advances offered by industry and marketing.
- Communications have a similar growth and supply logic, but in general, do not go through acquisitions but through the contracting of services from the large links.

The acquisition of associated based hardware and software must, under this precept, be constant and permanent, and take advantage of times of greater economic margin. This planning requires good market and technological prospection knowledge which allows extrapolation to perform good resource acquisition; avoiding the extremes of obsolete or too new resources.

Regarding software, freely available licensed software has been very useful, because it may become in some cases a solution because it is available faster (in spite of the fact that often the same must go through a support acquisition process). The evaluation of the use thereof must be done on a case-by-case basis with a very pragmatic view by compensating cost flows (TCO⁵) and the acquisition opportunities, where availability may grant many points in favor.

⁵ *Total Cost of Ownership: as a means to measure ownership cost considering all factors involved and not only direct acquisition costs.*

The summary of the strategy applied in regards to the maintenance of the infrastructure is to detach acquisition processes from development and service provision projects. This is achieved by acquiring and maintaining existing resources with permanent purchases and looking for substitutes, temporary or permanent.

3.2 Standardize

Guideline number two is to standardize, and its fundamental objective is to not rethink or redo aspects that were already thought and satisfactorily solved. To apply certain degree of standardization is beneficial in almost all levels of IT management, but the most specific objective is to make development areas exclusively dedicated to the business' logic; avoiding redoing of all aspects related to the applications' infrastructure.

The development of applications must produce Systems that comply with the functional specifications required and efficiently use the infrastructure in production. This is a central aspect; the core of the IT area is the provision of the services implemented in the datacenter and not software development. Conceptually wonderful software constructs that cannot be put into production or result instable or do not properly use resources, lack meaning.

The search for the proper balance between the needs and the desires of the development and production areas is mandatory. Many initiatives in this regard are contrasting, where operations prefers to maintain configurations stable as long as possible, development attempts to maximize its production with novelties. Surely the best position is not found in any of the extremes.

To establish the configuration and use it already mature during periods of greater risk is a good practice. To discuss and agree changes to make them during low demand periods, to assure that in this manner the resources are stable for high periods. Similarly, it is important to discuss and agree which software is managed by support and which by development, attempting to search for a balance between the stability of the production environment and a healthy innovation in development areas. This can be achieved with an architecture area that develops, establishes and maintains the applications infrastructure so that developments area are only dedicated to the business' logics, delegating in the areas of architecture and infrastructure the provision of common services.

Regarding the platforms, we have found highly convenient to establish two: one for fast developments (prioritizing development speed) and another for central systems (prioritizing robustness, adaptability, etc). Another central issue to prevent commissioning and testing situation problems is that they

be managed by the support area, while development areas may be managed and coordinated by both parties.

The market is flooded by standards, methodologies and reference frameworks for IT management, which follows the evolution, trends and bubbles. In this regard we have always taken a very pragmatic point of view with adopting, by analyzing them to take advantage of the good things and disregard the bad things. It is not wise to disregard what others have successfully used, but is equally pointless to only rely on exogenous frameworks because of the same reason. The application criteria of frameworks must produce better services, lower costs or less risk. For the Tax Administrations the adoption of a trendy standard is not a sales argument.

Throughout the years we have developed a standards adoption policy what can be summarized as follows:

- To make sure the specification is supported by a representative set of industry players.
- To support with the existence of usage experiences of significant reach that support their successful utilization.
- To make sure there are different implementations and that the compatible among themselves.
- To make sure that the scope of the specification and the associated instruments be made "more accessible."
- To provide the hope of acceptable life for the purpose sought.
- To prioritize the use of open standards.

And the last one, although it may be the most important one, but it depends entirely of the context:

- To make sure that the specification effectively adds value.

3.3 Data Management

For decades tax agencies have been collecting data of every nature, and the amount has grown significantly during recent years, so that it is persistent and treatment has become the axis of businesses. Much data comes from management systems themselves, others are generated by external systems. The demand for the same also increases with examination criteria which are increasingly sophisticated especially for predictive systems.

Updating and integration needs grow by accumulating data, logic and physics are necessary for their use from any system. Registry Simplification and One-Stop principles also require that these be offered to other organizations, requiring the implementation of safe publication, authorization and authentication safe mechanisms. This interoperability presents new challenges, tax administrations are used to requesting the data they need,

but the trend is for each production organization to be in charge of capturing, updating, Publishing and preserving what it produces. Therefore, we must learn to play this double role, organized producers and consumers.

Preservation demands become complicated day-by-day, because of volume, technological evolution, the amount; therefore, it is very difficult to assimilate the cost of conversion when risks are still remote in time. However, attention must be paid to this issue.

To manage data, in the broader sense, to capture, update, publish, preserve adequate levels of quality and security is expensive and painstaking. Not only is it necessary to do it in function of one own needs as well as the needs of the circumstance need, but it is also important to maintain a more broader vision in time and on state and not only tax businesses. This practice assimilated to natural functions contributes enormous value when responding to unplanned needs. To be proactive when managing data requires faster action when we must respond to data treatment requirements. This is another aspect, which as well as technological ownership, that must be understood institutionally and not only by the IT area.

3.4 Explore Technological Evolution and The Business

Tax administrations are not technology research and development organizations, but often the needs exceed the industry's supply and resources must be at hand to take what is useful and adapt it to the needs. To have resources that can carry out works that are foreign to the traditional development process presents itself as something that is fundamental to not exclusively depend on the commercial offer. These resources, human and logistic, not only should be capable of understanding the business, infrastructure and appropriate practices of the organization, but they must also be capable of understanding the organizational impact of the technology under study.

The technology available changes constantly, but new uses are continuously uncovered and their institutional ownership can attain interesting applications because of new benefits or costs reductions. The industry often overwhelms us with new products, but we believe that it is necessary to pursue evolution with an institutional approach and the knowledge of one's own business.

In foreign trade control, innovations continuously arise that may significantly impact the administration as well as the users. In these situations, new products can generate radical changes in operations where both parties gain with their adoption, even accepting to jointly face the necessary investment for change. In this specific business, the balance between control and

facilitation of economic activities is critical; there are many examples where the introduction of technology allows increasing non-intrusive control, by improving balance conditions.

An activity desired and often sought by the AFIP but with uneven results was to use academia as a consulting source for technology research and development. The lack of precedents and certain specific characteristics of Argentinean public university presents barriers that are still difficult to overcome. This continues being an activity that is pending.

3.5 Strengthen Human Resources

Finally, but not least important, we have left human resources, key stakeholders of the process and the source of all the other guidelines. Having analyzed all restrictions and with the premise of carrying out transformation actions thanks to existing resources, the management of people in the organization is key.

The complexity of current IT systems with the many levels and different services requires facing a clear tension between specialization and group vision. The necessary specialization in each aspect requires that each specialist focus on its issue forgetting that it is part of a greater system, maximizing its interests often to the detriment of the collective interests. This natural trend must be directed towards the greater knowledge of the context and the business. The question is: how is it done? Training on the one hand and personnel rotation on the other are two necessary actions that must be seen as an investment and not as cost.

However, a central aspect of the strengthening of the human resources is to assume the challenges and drive people to learn in action. New tasks are learned by doing and making mistakes to then do them again. If these tasks are outsourced, there will always be dependency of a third party to do them and the necessary knowledge will not be owned. Obviously, we must evaluate very well which things are worthwhile assuming and which not.

Activities that produce long-term responsibilities, such as the formulation of RFP⁶, are presented as key to be assumed by those that must be in charge of what has been acquired. At the AFIP, this process was always done by the IT group, especially by who had to carry out the implementation once the purchase is done. This practice guaranteed somewhat the continuity of the task, the education of personnel on the issue and the commitment of the parties' involved. This factor can further delay RFP preparation, but in general it is recovered with interest during other stages.

⁶ *Request for proposal: an invitation to vendors to present a proposal for a specific product or service.*

This way of giving officials a star role produces a feeling of personal worth, which in general results to be highly esteemed by people. Similarly, for being part of well sectors known by peers and users, they often result in commitments that are sounder than economic incentives.

Similarly, the acquisition of resources, project development cannot wait the reconversion of human resources. Therefore, they must be designed in such way that they can be carried out by currently personnel, with their strengths and weaknesses. At the same time, investment in training and human resources turnover related to technology management seems to be a need when facing challenges to response capacity generation, as we will see later.

The follow-up of new technologies is a need, but it is necessary to manage tension and seek a good balance between updating and taking advantage of what is suitable. Addition to new technologies with the purpose of finding magical solutions to problems is not advisable for an organization where technology is instrumental. The extreme of remaining in obsolete technologies by maximizing amortization does not seem to be advisable as well. To find balance is not easy and the problem happens at many different levels, not only in big issues.

All the aspects that have been presented previously are related to human resources management. The management of the infrastructure, to accept and manage standards, to manage extensively data, relate to ones own colleagues and with officials from other organization for the development of activities with common objectives are all aspects that have important cultural component. This component must be treated with diligence and dedication, as all cultural aspects, which are not owned by the mere fact of acquiring software or methodologies.

4. CONCLUSIONS

To assume the cost of facing unforeseeable requests does not imply work to a chive that most requirements be placed in the can be planned line. What must be understood is that this process is separate from the planning process, as a long-term investment that will produce in the future the reduction of requests outsider the plan. Analogously, the proactive attitude of the IT area and the thorough understanding of the business areas of the technology available with a good dialogue between both parties will allow reducing demands with inappropriate or unforeseen technologies.

As we have mentioned, the electronic government vision demands coordination with the remaining organizations of the public sector to present itself before society as an organized unit. In many countries this type of relation requires practices that are not common, with strong cultural, legal and organizational barriers. One of the great challenges of the public administrations for the coming decade is to work in coordination. This capacity is mostly achieved by technology management, but requires the acquisition of capacities and achieve strong changes at all levels of the state's business, because it crosses information, organizational, legal and cultural planes.

Tax administrations as leading organizations in the management of technologies and organizational innovation will continue being points of reference in this aspect; therefore they must be prepared in this regard to be able to set the necessary bases for the development of the Electronic government plans. These plans should not lose the target of a more agile State that assures rights and facilitates economic activities.

This effort does not seem to be conceptually different to the one stated and undertaken by the AFIP in recent years, only that in a greater scale. It seems that the practices proposed regarding infrastructure, human resources Management, standardization and data Management are necessary but must be applied to a group of organizations and not only to one component. This will surely require another type of legal and organizational challenge, but from the IT point of view, seem to be completely aligned.

The restrictions and the generalization of the proposals presented are simple and obvious. But often what has been overlook is known but not recognized; they are simply ignored and are not consequently acted upon. We have competently performed new methodologies or products that assure the attaining of success by their blind use. Good results came about because of the day-to-day efforts a group of people, aware of the context and ready to learn from their mistakes.

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Case Study

Topic 1.1

**STRATEGIC PLANNING OF ICTS (INFORMATION AND
COMMUNICATION TECHNOLOGIES):
DILEMMAS POSED BY THE
CURRENT ENVIRONMENT**

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*SUMMARY: Abstract.- 1. Technology strategy and organizational strategy.
1.1 Tax Administration strategy.- 1.2 Organizational processes and
Infrastructure.- 1.3. Technology strategies.- 1.4 ICT processes and
infrastructure.- 2. Challenges for ICT planning aligned with the Tax
Administration's strategy.- 3. ICT planning: A practical analysis of the
administrations of CIAT's member countries.- 4. Current challenges.
Conclusion*

ABSTRACT

Tax administrations, because of their dual characteristic of simultaneously facilitating and controlling compliance, make intensive use of information and communication technologies and the way in which ICTs are developed within the organizations depends on their level of alignment. One may observe in the tax administrations of member countries how this relationship affords opportunities and limitations. In specific cases, an analysis is made of the way in which this influence determined the availability of electronic channels for filing tax returns, how it determined the very structure of the administrations through the establishment of large taxpayer units, while at the same time exploring less successful results originating from a not as adequate alignment.

Within the framework of the strategic alignment model, an effort is made to align ICTs to the business of the Tax Administration, it being concluded at different times of organizational strategic development, that at least three of the perspectives identified in the model are beneficial for the administrations: the execution of the strategy, the technology as potential and the level of service.

The work explores several challenges faced by alignment: the participation of the tax administrator and the managerial staff in planning and managing the ICTs; the changing nature of the tax administration and the dynamism of the ICTs in the business area; the difficulty for measuring value added resulting from investments; restlessness arising in times of governmental changes and the capacity for recruiting and maintaining IT talent. The work analyzes, by way of illustration, specific cases of member countries such as Argentina, Costa Rica, Ecuador, France, Honduras, Kenya and the United States of America.

Finally, by way of conclusion, the work poses the challenges and opportunities to be faced in the future by the ICT areas, namely: the pressure from reduced investments as a result of the world crisis, the possibility of stagnation of electronic services once they mature to the first generation level, the promulgation of laws for free access to information and simplification of procedures, the use of reference frameworks and good practices developed at the IT international environment, the implementation of service-oriented architectures, potential use of XBRL and the digital gaps.

The State and society impose conflictive challenges on tax administrations. On the one hand, tax administrations are required to take actions to guarantee the correct performance of tax obligations to increase tax revenues and provide the State with the necessary resources for development. On the other hand, society demands fewer taxes, more transparency and less intervention; to sum up: simplification and facilitation, while at the same time increasing control. In such scenario, the tax administration has been long tied to information technologies. Their application has been a possibility as well as a limitation to increase management capacity.

Tax administrators use information technologies to carry out a variety of functions: taxpayer registration, tax return reception and processing, taxpayer's debit and credit account - tax current account- maintenance, controlling performance of obligations, collection, procedures' automation, risk analysis and case selection, generation of statistics and monitoring of management indicators, scenario simulations and management, and the promotion of a tax culture. However, the way such technologies are and have been used affect management's capacity and, sometimes, even the way tax administrations are structured.

During the 90's, and in many cases before then, third parties, generally private banks, were entrusted with the transcription of tax returns file in paper in order to improve tax collection and support the scarce capacity of information systems to timely respond to control requirements, with several tax administrations implementing large or main taxpayer units. Generally, the setting up of such units forced selected taxpayers to submit their tax returns and effect payment at one single geographic location, using a decentralized information system which, at times, kept little symmetry with the one used to manage the largest portion of taxpayers. Given the system weakness, collected information went down considerably, with only tax return and payment control being effectively addressed and generating a significant reduction in tax administrations' capacity to exercise their control functions. This management was so important that some countries even set up standards to penalize taxpayers who opted to submit their tax returns otherwise or elsewhere.

In the current decade, thanks largely to an increase in the available technological facilities, the ubiquity of Internet and a better alignment of information technologies with the organizational strategy, the electronic means are the favorite means to submit tax returns and make payments. Taxpayers are no longer obliged to go to a single place and use one single means. And, as a consequence, some countries have regulated tax filing obligations through electronic means by expanding it to other relevant taxpayer sectors.

The need to align the technology strategy with the tax administration's strategy seems to be an inexorable axiom. The adequate alignment of technology planning with organizational strategy could be defined as the timely application of ICTs to certain situations and the alignment of actions/results with the business' strategy, goals and needs.

It is worth wondering if, alternatively, it is also inevitable that tax administration's strategy should be aligned with information and communications technology trends. The answer is not necessarily as direct. Especially when there are some companies, mainly those companies working in highly dynamic sectors and with short-term cycle products and services, who believe the alignment could imply a paradox. There is a significant percentage of organizations, 30% according to a study, that have aligned ICT strategy with the organizational strategy, resulting in no added value to the organization and sometimes proving harmful because it created a scheme too rigid for the adoption of emerging technologies.¹

¹ Further analysis of this issue can be found in an article by Nicholas Carr published in the *Harvard Business Review*: "Information Technology Doesn't Matter"

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Is it even necessary that information technologies should be limited exclusively to the implementation of the administration's strategies? Is it essential that ICT strategies should become the guiding engine of the organization's strategy? Do ICTs matter at all?

For instance, filing tax returns through means other than paper is an option available in most member countries, and the use of Internet as a filing means is even favored by tax administrations. Those which implemented these solutions hesitated little in incorporating electronic filing as a strategic objective in their respective plans. Those which have not yet implemented such facilities plan to do so in the short term. But some years ago, when the only tax return filing means was paper, when there were no countries allowing filing even through magnetic means, the implementation of online filing was probably more in response to proposals originating in technological areas than in administrative areas, intended largely to demonstrate the utilization of technologies in other business areas or the Tax Administrations of other countries. In this sense, the CIAT has played a relevant role in facilitating that exchange.

Despite the clear benefits of using software to prepare tax returns, including: better data quality, greater availability of information in a shorter time and reduction in data-capturing-related problems, some mission areas of tax administrations opposed to the implementation of these mechanisms on the grounds that they were uncertain about the evidentiary validity of submitted tax returns or the incapacity to register taxpayer's signature in the tax return and a resulting lack of validity. Even in such cases, the new manner of operation prevailed. In some cases the flexible disk was submitted together with a printed version of the tax return prepared with the software, along with the signature; or one case in Spain, which used a printing format and reading of bi-dimensional codes printed on the tax return printed paper.

On the other hand, one example of the problems resulting from an insufficient alignment was the implementation of OCR/ICR² character mechanisms to automate value capture paper tax returns and thus substitute the way to capture tax return data, rather than the manner tax returns were prepared. The investment made on this type of technologies was not consolidated because its use was aimed at addressing an operating problem, tax return capture; but its implementation was not aligned with the main organizational strategies: improving control and facilitating compliance.

² *Optical Character Recognition/Intelligent Character Recognition*

1. TECHNOLOGY STRATEGY AND ORGANIZATIONAL STRATEGY

There is abundant literature in support of the need to align the technology strategy with the organization's strategy. However this relationship is not clear and without difficulties, not only in tax administrations.

The "Strategic Alignment Model"³ - SAM proposed by J. Henderson & N. Venkatraman, identifies four domains incidental upon the alignment of ICTs with the business:

1.1. Tax Administration Strategy

This includes the scope and competencies set forth by the laws, in particular tax laws, and their regulations; governmental policies and their vision of the relationship with taxpayers; simplified systems; the geographic distribution of the administration and the concentration of the economic activity; the demand of taxpayer services; the society's perception of the transparency of tax administration's actions; the risk perception; double-taxing agreements; cooperation alliances and agreements signed between the tax administrations and other regulatory bodies; and the relationships between the organization's political and technical levels.

1.2 Organizational Processes and Infrastructure

This includes the organizational structure, tax administration processes, particularly key processes (taxpayer registration, tax return and payment processing, compliance control, collection, examination, studies, etc.) and those related to foreign trade, for the administrations integrated with Customs.

In general, the Tax Administrations of CIAT's member countries have adopted mixed structures with well differentiated regulatory and operating areas. The organization structured around taxes evolved into an organization structured around functions, and continues evolving into organizations structured around taxpayer type.

This quadrant also includes human resources working at the Administration.

1.3 Technology Strategies

These comprise information systems and their deliverables to the Tax Administration, but in particular include ICTs that create opportunities or possibilities for the Tax Administration to improve existing services, implement new services, expand communication and provision channels; implement

³ *Strategic Alignment Model*

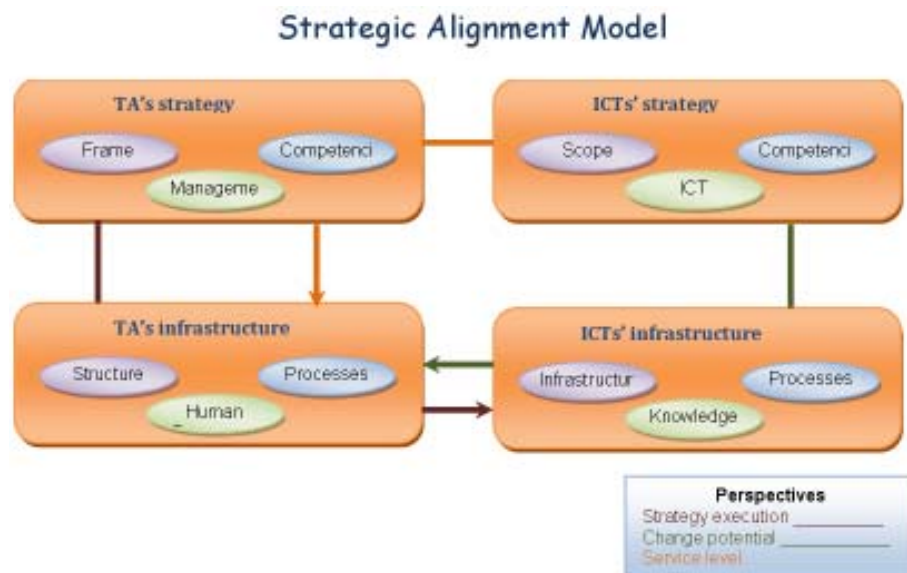
customer service platforms or automated means for the relationship with taxpayers; or improve controls: determination of taxes, systematic reception of information from third parties, identification of inconsistencies through cross-reference information, risk analysis or a closest control of certain Administration's auxiliaries, such as accountants and agents, who assist taxpayers in preparing their tax returns.

The quadrant also includes the existing policies regarding the way ICTs are implemented (wholly in-house, total or partial outsourcing of services, use of off-the-shelf tools, open-code software or limitation of suppliers, open competition); the methodological standards and other benchmarks adopted by the Administration or the State in a general scenario.

1.4 ICT Processes and Infrastructure

This quadrant includes solutions architecture: policies and guidelines ruling the integration of hardware, software, communications and network platform, and data management; processes for the development and maintenance of applications, equipment provision, maintenance of hardware and equipment technical support, software, applications and networks and, of course, the human resources of ICT areas.

The SAM model establishes four dominant perspectives extended at least to eight perspectives. Tax administrations have used at least three of them:



- **Strategy execution**

The Tax Administration's strategy drives both the technology strategy and the infrastructure development. It pertains to a hierarchical vision where ICT executives assume the responsibility for implementing the institutional strategy. External technological factors have little weight on the ICT development internally. The fundamental goals of this perspective are minimizing errors and cutting down time. This perspective consists in sorting out operating processes weaknesses through the use of information systems. A marginal result of this perspective could be information systems achieving a high degree of maturity and stability, despite being supported by "outdated" technologies.

- **Technology as a potential for change**

This perspective is concerned with the opportunity of using new technologies to provide new services. It is aimed at achieving a potential flexibilization of the organization's strategy to accommodate new technological capacities. The top management's role is to visualize the administrative impact of the use of new technologies and the challenges imposed by the necessary cohabitation with the existing solutions. But the person responsible for ICTs within the organization is a catalyst that facilitates the understanding by the administration of such technology potentialities. The provision of services through non-conventional channels, including the Internet and other telephone services and the proliferation of self-management applications, are an example of this type of alignment.

- **Service level**

This alignment perspective moves slightly away from the organization's strategy. It is aimed at creating a high-quality ICT area supported by the adoption and the implementation of benchmarks, methodologies, standards and good practices making an impact on the organization's processes thanks to the effective use of the technology and the manner that solutions are implemented and managed. The recent implementation of iterative methodologies, such as RUP⁴, and agile methodologies; the creation of scalable supporting mechanisms for internal and external users service; the implementation of high-availability systems or alternative data centers; information technology security measures, including single-access authentication systems; are all examples of the results of this type of alignment perspective.

⁴ *Rational Unified Process*

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We believe that for any model to be useful, both in practice and in concept, it must be formed as a dynamic model that allows the administration to exploit the potential uses and thus capitalize these three alignment perspectives, the strategy execution being the dominant one.

To administer ICTs within the organization, tax administrations should ideally have a technology strategic plan aligned with the organizational strategic plan. Of course, this requires an organizational strategic plan. In this case, and particularly in the case of investments, the size matters: factors such as performance, availability and opportunity of services force the Administrations of geographically more scattered countries with a larger number of taxpayers to include additional considerations in their plans.

ICTs' strategic planning process must be an ongoing task that should be subject to permanent revision. The result of this process is a plan that must be established and spread in order to be implemented, but which in no case should it stand as a limitation to adapt to the changes arising in relevant areas.



One approach to Grupo Forrester's proposal for ICT executives within the frame of Tax Administrations can follow five planning phases: 1) definition of the plan purpose that will eventually accompany the organization's strategic planning process as a whole, 2) identification and recognition of corporate needs, 3) assessment of the ICT area's capacity to address such needs and identification of existing gaps, 4) development of plan with a focus on closing identified gaps, 5) wrap up plan and begin its propagation for implementation purposes.

On the other hand, the control objectives established by the Government Institute of Information Technologies and the Association for Audit and Control of Information Systems, Common Objectives for Information and Related Technologies- COBIT provides as one of their control objectives the process of technology strategic planning, which comprises the following activities:

- **Administration of IT value**

It refers to the work conducted along with the substantive areas to establish the required investments in technology and to determine the impact that such investments will have directly or indirectly on tax revenues and TAs' actions efficiency.

- **Alignment of ICTs and the substantive area**

It focuses on educating tax administrators on the potential benefits of applying new technologies, making sure that the development direction of ICTs is understood and shared by the organization.

- **Assessment of current capacity I**

Information systems and related services provided by ICT areas and the communications platform must be assessed to determine their stability, operating costs and complexity in order to sustain them over time.

- **Development of ICT strategic plan**

The strategic plan must be developed along with the areas involved and responsible for the Administration's mission processes, including budget frames, source of financing, acquisition strategy and schedule.

The development of the technology strategic plan should have at least the engagement of the Administration's maximum authority, financial executives, regional administrators and line executives.

⁵ *The so-called Moore's Law provides that the number of transistors that can be integrated in a low-cost circuit duplicates approximately every two years.*

- Development of operating plans

The need to formulate annual budgets in most administrations calls for tactical plans intended to implement defined annual strategies.

- Project portfolio management

2. CHALLENGES FOR ICT PLANNING ALIGNED WITH THE TAX ADMINISTRATION'S STRATEGY

There are several challenges posed onto aligned ICT planning process, among which are, without any particular order, the following:

- The tax administrator's engagement in the ICT planning process may be inexistent, either because all the inputs necessary to transmit the strategy are assumed to be included in the organization's strategic planning, or because such strategy is transmitted only to the ICT responsible. This problem may be aggravated by ICT officers' perception of the importance of the engagement of the business areas in planning "their" business.
- Tax administration and information technologies are very dynamic areas.

The Tax Administration is required to permanently watch the environment in order to identify and, better yet, foresee any changes in the main variables involved in their mission, which include foreseeing potential wrong practices by a group of taxpayers. This reasonably calls for an ongoing process of reforms to the regulations frame, either through amendments in the tax laws, or the creation of new taxes, or administrative amendments targeted at solving problems detected in previous years. Usually tax return forms, and the logic immersed therein, are modified on an annual basis.

The Administration's control actions are also modified by the specialization of taxpayer type-oriented actions (natural persons, exempt taxpayers, small and medium sized companies), actions targeted at specific economic sectors, the increase in capacities as a result of a better risk management and the use of external information.

This dynamics puts the pressure on technological areas to develop solutions or adapt the existing information systems on a timely manner.

On the other hand, information and communications technologies have an even greater dynamism. On the one hand, the measurement of capacities is affected by Moore's Law⁶, which establishes a duplication of the computing

⁶ *Balanced Scorecards*

capacity every eighteen months; Nielsen's law on bandwidth, which provides that the bandwidth for any premium user grows 50% per year. On the other hand, technological trends vary notably. For example, from centralized solutions of computing centers based on big sized computers, tax administrators migrated to decentralized client/server topology solutions with work stations consisting of personal computers and smaller departmental teams in some cases engaged in specific tasks such as, for example, assisting a group of taxpayers (special taxpayers, Argentina's sistema 2000) etc., to a new centralization supported by IP networks with access to external users through HTTP protocol on the Internet.

On some occasions, the high speed of technological change makes that a proposal, and the plan and the technology therein contemplated, put forward in a technology plan that was already published and spread, become highly likely to be rendered obsolete. This is particularly the case when technology acquisition processes are framed within acquisition procedures having minimum, long, extendable and inexorable terms.

Therefore, ICT planning must include a continuous process of revision and evaluation.

- The difficulties encountered in the planning process of ICTs in a tax administration, and particularly when there is no alignment between the ICT strategy and the organizational strategy, are increased when the technology officers lack knowledge on tax administration matters. And even more when the officers responsible for relevant areas are not sufficiently knowledgeable of the issues inherent in tax administration. This could result from the political nature of the top management of tax administrations and the time these appointed officers need to master tax administration matters.

In this same sense, organizations' executives may lack knowledge of the current capacities brought about by technology, the opportunities for the organization arising therefrom and what organizations need to do to profit from that technology. The ICT executive must communicate the benefits for the tax administration originating in such potentialities.

The ICT responsible in any tax administration must see to it that he, and the main members of his team, obtain training on tax administration matters, manage basic concepts and terms in order to make dialogue possible.

- Measuring the direct benefits from technological investments is highly complex, in terms of the increase in tax revenues, collection effectiveness and the increase in voluntary compliance. This complexity may be perceived as a costly service center in the eyes of the administrators.

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In this sense, a proposal has been made to establish an integral management frame⁶ for the information and communications technology area, which should follow the following design principles: filling simplicity; the existence of explicit links with the technology strategic plan and the goals set in the annual operating plans; the existence of corporate metrics based upon standard criteria. This allows evaluation meetings to focus on decisions targeted at solving problems and corrective actions, instead of analyzing the relative importance of indicators; and the extendable nature of indicators, which should allow an aggregate vision apt to expand and include details.

Metrics should be aimed at determining: 1) the financial execution of the area according to the services, the project advancement, the investments in platform and strategy implementation; 2) the execution and traceability of technology projects and deviations from the activity planning and requirement fulfillment; 3) the provision of services from the aggregate vision of technology service internal and external clients (response time, service availability, data accuracy); and 4) users' satisfaction, by way of independent surveys and other evaluation means.

ICT investments should be less appraised in terms of the possibilities resulting from the technology and more in terms of the possibilities originating from the information obtained, processed and managed with such technology.

- One of the greatest difficulties observed in several tax administrations of member countries when implementing an ICT aligned strategy is the possibility that the strategic planning process may remain incomplete, in view that plans may fall short of: measurement of total costs of ownership and implementation; identification of risks; project advancement indicators and alerts on deviations in the light of timeliness and budget execution.
- Another variable to be considered in the planning process is the existence of a sort of turbulence that may be generated in any tax administration upon the occurrence of a change in management. This variable could be accentuated by changes in government, but may also occur within the same government tenure.

Investment projects in full execution are particularly sensitive to this situation, which are sometimes cancelled, postponed indefinitely or delayed.

At times, a change in authorities may trigger an important change in the organization's strategy, generating, for obvious reasons, a lack of alignment between the technology plans and the new strategy.

⁷ *Balanced Scorecards*

The technology areas may face the new executives' tendency to "start all over again".

- Another important element is the so-called "ICT government"; in particular, the aspects related to the prioritization criteria within tax administrations, already complex between them.

Some tax administrations have subjected their technology areas to a specialization on tax administration specific areas, so that, for example, one area addresses collection requirements and compliance mass control, another addresses the requirements of examination and control areas, another is responsible for customs processes (in integrated administrations) and a different area deals with administrative requirements, such as human capital management, fixed asset control and budget control. In these cases, project prioritization is carried out along with the business area and their consolidation is sometimes determined, or limited, by the available resources for new investments.

Other administrations have established institutional prioritization mechanisms through the activation of Committees or other collegiate bodies, which globally determine the viability of projects and the allocation of resources. In this case, priorities will probably be more aligned with the interests of the organization as a whole. This type of ICT government may generate some difficulties in the adoption of fundamentally technological projects.

When the prioritization process is not properly assimilated by the Administration, the area responsible for ICTs may face an additional problem arising from the arrival of ICT-based solutions developed directly by user areas independently from ICT planning. This problem could be aggravated if there is disconnection between the Administration's regulatory and operating areas, which may be developing solutions in a decentralized fashion. This hinders the standardization of processes and diagnosis processes, increases the demand for maintenance of diverse solutions to address the same problem and evidences greater resistance to change at the time of implementing new solutions.

These difficulties have been observed particularly in areas related to compliance control, especially collection, and in the treatment of the resources put forward by taxpayers in response to tax administration's actions.

- Another problem, particularly in some Tax Administrations of developing countries, is the insufficient capacity for recruiting and retaining talents in technology areas. The tax administrations of developing countries which have established levels of administrative autonomy and particularly tax careers seem to be in a better position to counteract this problem.

3. ICT PLANNING: A PRACTICAL ANALYSIS OF THE ADMINISTRATIONS OF CIAT'S MEMBER COUNTRIES

Apart from the theoretical analysis, it is worth wondering whether there is an expressed identification of the organization's goals with the goals fixed in ICT plans. This implies not only identifying the degree to which the mission and the objectives of the institutional strategic plan are shared and supported by ICT strategies, but also determining whether the innovation processes driven by ICT strategic planning are assimilated by the organization's strategy.

The need of alignment of the organizational strategy with the ICT strategy is clear. The Vision itself established in the Tax Administration's strategic plans mention the relationship with the use of information technologies. The vision of the Office of National Taxes and Customs - DIAN of Colombia aims to form "a team of committed public officers dedicated to safeguard the State's interests, with a sense of service, an integral and continuously updated technological support and a special administrative system typical of a modern entity that responds to the needs of the society, officers, taxpayers and users". The DIAN will look forward to "to basing its management and decision making on reliable and timely information generated by systems developed with state-of-the-art technology". In the case of the General Office of Internal Taxes of the Dominican Republic, the vision states the purpose of "Becoming a prestigious and credible organization using efficient policies, procedures and information systems, with ethical and professionally unobjectionable people who look for ways to sustainably increase tax revenues, and reduce tax evasion and respect taxpayers' rights".

Below is a short summary of specific cases related to strategic planning and ICT planning in some Tax Administrations of CIAT's member countries.

- **Argentina**

The strategy 5 of the Strategic Plan is intended to develop new mechanisms for systematically inducing compliance. To this end, the development of IT applications will be promoted intended to provide citizens and companies with information relative to their tax, customs and pension situation. The Federal Administration of Public Revenues - AFIP will try to set up so-called reciprocal systems, which allow taxpayers not only to inquire about their operations and verifying their proper registration by the Administration, but also to initiate claims electronically in the event of any inconsistencies.

Regarding the use of the Internet, the AFIP will conduct a constant revision and adequacy of the body's web site with a view to using this channel for most interactions between citizens and the Administration. Additionally, the ICT potential will be used to make the regulatory information available to all

taxpayers and customs users upon need, and to provide homogenous answers and solutions through all channels. An interesting aspect of the plan is the undertaking to provide web access to sectors of the population who are deprived of it and to set up aid means to facilitate the utilization thereof by citizens not familiarized with it.

In the same line, the plan will try to customize the relationship with taxpayers and customs users. In this sense, the plan implies that customization cannot be achieved through traditional channels, so it will draw on the development of information systems designed to address different taxpayers' specifics.

In trying to make an intensive use of ICTs, the AFIP will emphasize the mass use of the tax identification code, a single authentication method for users of different systems, with a view to providing more and better services. The use of the electronic signature will allow providing more juridical security to the operations in need thereof.

- **United States of America**

The document defining the strategic for an electronic tax administration-ETA-states the criticality of such strategy for the IRS' global mission (providing citizens with maximum quality services through facilities that allow a proper understanding and fulfillment of obligations).

The plan's strategic goals included accomplishing electronic filing of 80% of individuals' tax returns and full satisfaction of taxpayers, distributors and officers, in the region of 90%.

The key strategies consist in transforming electronic filing of tax returns and payments into a simple, cheap and reliable process, so that taxpayers may prefer this channel over any other means.

In its plan, the Internal Revenue Service - IRS defines challenges related to taxpayers' infrastructure, security, privacy and mistrust, and the cost and complexity of products. In this sense, it contemplates strengthening online tax return service to receive, store and deal with XML tax returns containing errors, and expand the on-line services platform to allow taxpayers to perform all their transactions electronically.

The IRS' modernization process identifies driving forces, among which stand out: a great increase in work volumes, an increasing complexity of tax regulations, financial transactions, the existing expectations of a continuous improvement of services, a demand for answers to the changes in the tax system and the evolution of taxpayers' behavior.

The strategic vision recognizes the business domains identified through a functional segmentation of the Service: tax return processing, taxpayer's account management, taxpayer services, report on compliance (includes examination components of large and medium taxpayers, small taxpayers and sole-proprietors, exempt and wage-earning taxpayers), compliance control (includes collection and actions aimed at settling unfulfilled obligations), criminal investigation and internal administration. On the other hand, the technological domains include: the development of applications, corporate services, equipment and services for final users, networks and corporate operations.

- **Mexico**

One of the plan's strategic objectives is "To have transparent services", establishing the duty to create an electronic guide of electronic requirements and commitments comprising the required information, flow charts and sufficient explanations for compliance and expectable service levels.

Another strategic objective is "To implement an information integral management" intended to standardize the internal information of the Tax Administration Service - SAT (in the Spanish acronym) and turn it into knowledge of taxpayers. The aim is that information systems and data should become useful to add value to SAT's operations and tax intelligence. It provides the mission to implement a system for measuring quality (accuracy, relevance, timeliness and truthfulness) of information. On the other hand, the information security strategy should be updated for alignment with SAT's strategic objectives under ISO-27001 criteria.

Another related strategic objective is "To guarantee operating continuity and a comprehensive solution that considers the alignment of organizational processes and structure with services". In support of this alternative, the plan puts forward projects for platforms, ongoing improvement, strategic management, technological transformation, operating continuity and the alignment of the organizational structure with processes and services.

Finally, the objective of an adequate infrastructure is achieved through the use of state-of-the-art technology intended to modernize the customs infrastructure and promote of a consolidation program of subcontracted services.

- **France**

Among the objectives of 2003's governing scheme is the reduction of the existing gaps in the use of ICTs: IDs, multiple users and access means to different accesses; applications gap, redundant information turning

simultaneous update not always feasible; geographical gap, taxpayers' data that may be geographically scattered among the applications installed in local administrations; time gap, the repercussion of a fact in the set of information systems which does not occur in real time; disruption of the information chain, as a result of important disruptions in the automated processes between applications.

The plan's main objective is the construction of a user-oriented information system: in the area of taxpayers, the system will assist natural or juridical persons under a single operating criterion, attempting to form a tax obligations vector extended over time for all effective fiscal years; and will structure a single tax account, currently dispersed, including lodged tax returns, payments, liquidations, filed demands and claims. This account must be always available for access by authorized officers.

The perspective of customization of systems and services is not only limited to those provided on line to taxpayers, but rather includes DGI's officers, who must observe an interface adapted to their competences and needs.

The plan puts a special emphasis on investigative activities and the development and execution of pilot programs targeted at different aspects of the Administration, but particularly at improving control processes.

- **Costa Rica**

Among the strategic objectives of the General Tax Office stand out: "To develop an integral management model that allows to accomplish institutional objectives", "to put together a technological platform in support of the business management, with a corporate vision in line with the digital government strategy" and "to enhance the services provided to internal and external clients". This will require the consolidation of an organizational and functional structure to strengthen ICTs' corporate vision, the implementation of a strategic plan for ICTs with annual updates and a centralized, agile and user-friendly technological tool that may allow the operation of a redesigned tax collection portal and a multi-channel management platform for the relationships with clients⁷.

- **Kenya**

The particular case of the Kenyan administration's strategic planning is interesting given the incorporation into the plan of fully technological elements.

⁸ *Customer Relationship Management - CRM.*

The second goal stated in the plan of the Kenya Revenue Authority - KRA is the search of integrated solutions and processes apt to assure operational excellence and a unified vision of taxpayers. To that end, it sets the objective of modernization of ICT systems through the development and application of an ICT strategy including: the acquisition and implementation of an integrated tax administration system; the improvement of SIMBA 2005 system supporting customs operations; the acquisition and implementation of an integrated system supporting the administrative management; the implementation of business intelligence facilities⁸ to allow analytical studies from transactional data; the implementation of an Internet portal for the agency; the improvement of the ICT platform including voice over IP⁹, a voice-activated command recognition system¹⁰ supporting basic services to taxpayers and answers to frequently asked questions; the implementation of a database for knowledge management: implementing the recommendations from the Library as to infrastructure for information technologies- ITIL¹¹ intended to manage technology services; and the implementation of a business continuity and disaster recovery plan.

Supplementary, it establishes that ICT services should implement standards and use the benchmarks established in ITIL and COBIT, the security rules provided by standards ISO 17799 and should obtain certification of processes under standard ISO 9002.

- **Ecuador**

The challenges concern the provision of better services integrated to the institutional value chain supported by the new information technologies, which would enhance the capacity for voluntary compliance of tax obligations. Faced with the new challenges, the Internal Income Service must develop call centers, new Internet services and new persuasion and tax collection mechanisms.

One pivotal direction for the technology area is the generation of knowledge through the use of information. This objective is leveraged by the several programs targeted at managing the life circle of available information integrally, generating knowledge therefrom and integrating it to the institution's key processes, so that they may help support and improve the effectiveness of tax compliance facilitation and control programs.

⁹ *Data warehouse.*

¹⁰ *Voice over IP- VoIP*

¹¹ *Interactive Voice Response - IVR*

¹² *Information Technology Infrastructure Library*

In addition, the strategic plan puts forward the need to improve processes continually and will, to that end, introduce new technologies in what will be a true innovative process.

In the same way, several Tax Administrations of several CIAT's member countries include in their strategic plans the need to make specific improvements in implemented and productive processes and information systems. So, for example, Chile's Internal Tax Service sets forth the obligation to increase the number of computers allocated to self-services, to have available an online service platform customized by taxpayer type. Honduras' Revenues Executive Office is committed to expanding services available on the Internet through the Institution's webpage, automating communications and interfaces with banking institutions, consolidating already implemented modules, developing a correction module and coupling historical database's functionalities to E-TAX. In Bolivia, the National Tax Service will try to consolidate Da Vinci, Copernicus, Gauss, Pythagoras and Newton systems.

4. CURRENT CHALLENGES. CONCLUSION

The world's economic crisis is expected to have important effects on tax administrations, partly due to the pressure to cut down operating expenses and differing investments, as well as the need to put up changes in the tax system aimed at improving revenues with the introduction of new taxes, new rates or tax pardons, or the granting of tax benefits targeted at increasing taxpayers' purchasing and investment power. Apart from the need to accommodate timely the information systems and the electronic service platform to such changes, it is also expectable that technology investments, and in particular the new project portfolio, will see their budget shrink.

In this sense, the technology areas could evaluate the suitability of differing investments in equipment and particularly the use of open-code software products as less costly alternatives for the implementation of projects or as substitutes for license office software products. The utilization of software as a service¹², the virtualization of servers and the outsourcing of services are other variables to be considered.

One concern that the persons responsible for tax administrations' technology areas should have in mind is the possibility that the degree of maturity achieved by the current generation of online services may contribute to a sort of stagnation of the technological innovation process. In this sense, the goals relating to these services, for example the filing of tax returns through the

¹² *Software as a Service - SaaS.*

Internet should consist of not only quantitative but also qualitative improvements in the number of tax returns lodged. Downloading of long applications could be avoided with the use of online forms with the same capacities, through the use, for example, of JavaScript and AJAX; electronic tax returns could use the information on operations with third parties, the records of credits from account payments, credits carried forward from previous years or the acquisition of companies, which can all be used to "propose" ever more specific tax returns to taxpayers. In the same way, electronic services can be extended to the full cycle of tax return management, including online revision of tax returns originating in the processes for determination of taxes performed by the Tax Administration (through cross-reference information or examinations), and the filing of motions against such determinations. The integration of existing applications or the update thereof will be aimed at achieving a greater cohesion of the available information, single-access mechanism and filing customization.

Another element for consideration in the short term derives from the fairly generalized enactment of laws that guarantee free access to information and which will encourage any Tax Administration to post online summaries containing all taxpayer information available at one Administration. This could be leveraged with the implementation of rules intended to simplify diligences and forcing the administrations at large, not only tax administrations, to minimize the requirements of information from citizens. The need to establish electronic files compatible with the whole Administration, resulting from the enactment of Act 11/2007 in Spain, is a good example of this.

Security-related problems cannot go unnoticed, on the one hand, because tax administrations are potential targets of attack; and on the other hand, because they are obliged to properly safeguard taxpayers' information. In this sense, the provision of 24 x 7 services, disaster recovery, ongoing service, access monitoring and the use of information by the administration's officers are important concerns that should be addressed in ICT areas' plans. These concerns should be allowed for by potentially new regulations laid down for the execution of Internet transactions involving more than one jurisdiction.

In defining the strategic planning and its implementation, ICT responsible areas may consider using the frame for process maturity models proposed by COBIT, ITIL recommendations and in particular the subscription of public service level agreements with taxpayers and other online service users, billing generalized support, withholding and tax assessment certificates and other electronic documents, the design and implementation of a service-oriented architecture - SOA¹³ and the use of Extensible Business Reporting Language - XBRL as a standard reporting mechanism of operations, financial statements

¹³ *Service Oriented Architecture*

and inter-administration reports. The generation and sending of information reports through the Internet using XBRL, and the speed of processing and verification thereof, will introduce significant improvements in internal and external control processes. Any company's accounting, financial and operating system will have to produce general sheets, income statements and other accounting and financial reports transparently in XBRL. These reports will be sent to stock exchange operations regulatory bodies, shareholders' meetings, external auditors, the social security administration and the Tax Administration, which will receive, compare and analyze them in a standardized and agile fashion with the level of detail required in each case.

The ICTs' strategic planning process must contemplate its different goals: on the one hand, implementing the organization's strategy; while on the other hand, innovation. The impact of ICTs will continue to be subject to constant changes and will certainly increase its value for the tax administration.

Lastly, an additional factor is derived from the potentiality of tax administrations to become a driving force for the generalized adoption of e- government services and an agent contributing to the reduction of digital gaps.

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Case study

Topic 1.2

THE PROMOTION OF MASSIVE CONTROL ACTIVITIES (FILING AND PAYMENT)

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SUMMARY: Executive summary.- 1. Introduction.- 2. Control activities.- 2.1. Electronic filing.- 2.2 Online submission off-ramps.- 2.3 Automatic tax processor (ATP).- 2.4 Pre-population of returns.- 2.5 Tax calculators.- 2.6 Employer filing season.- 2.7 Tiered service centre.- 2.8 Offline system for bulk capture.- 2.9 Scanning of documents and digitization.- 2.10 Threshold amounts for submissions.- 2.11 Third party data.- 2.12 Online password reset.- 2.13 Different filing seasons.- 2.14 Dynamic forms.- 2.15 Risk engines.- 2.16 Issuing of tickets to acknowledge attempt to comply.- 2.17 Knowledge base for agents.- 2.18 Assisted front office.- 2.19 Effective financial system in support of payments.- 3. Design considerations for setting a foundation for controls.- 3.1. Application integration.- 3.2 Pervasive technology architecture.- 3.3. Robust information security management as a culture.- 3.4 Managing information as an asset.- 4. Administrative structure.- 5. Legal framework.- 6. Challenges.- 7. Conclusion

EXECUTIVE SUMMARY

The full on adoption of information technology by governments and in particular tax administrations has resulted in more efficient electronic and/or automated channels generating large volumes of transactions from the taxpayers, with more users of the systems and the increased potential for third party data usage in support of the endeavour. Furthermore, the systems transcend the traditional ring-fence that purports to enable just the internal business of tax administrations, into an integrated platform which creates a wider eco-system of taxpayer and tax administrator; and all the elements that support or are supported by it.

However, the potential impact of a weakness in controls suggests that due care must be exercised in all relevant activities. The price of failure is generally too big to pay. Due to the inherent risks having a bigger base for a stronger impact, massive control activities therefore become imperative.

The purpose of this paper is to discuss the following massive control activities that SARS employs in the mitigation of risks which include both systems and process controls:

- Automatic Tax Processor (ATP)
- Pre-population of returns
- Tax calculators
- Employer Filing Season
- Tiered Service Centre
- Offline system for bulk capture
- Scanning of documents and digitization
- Threshold amounts for submissions
- Third Party Data
- Online submission off-ramps
- Online password reset
- Different filing seasons
- Risk Engines
- Ticketing for acknowledgement of compliance
- Knowledge base for agents
- Assisted front-office
- Effective Financial system for payments processing

The paper then discusses the required foundation for the controls, particularly the systems driven ones, with a specific focus on the technical design and the governance that manages the risk associated with the deployment of IT.

The administrative structure which informs the utilisation of resources for efficiency in delivery is discussed, suggesting a focus of the more impactful activities on the areas with the highest leverage. A segmented administrative framework is suggested, favouring different treatment for taxpayers with different levels of compliance and different assessed financial obligations. This is followed by the legal framework which governs the administration at large and some of the control activities previously discussed. The paper concludes with some remarks on the online service revolution and the challenges experienced in the endeavour for the institutionalisation of control activities.

1. INTRODUCTION

Technology has seen a shift, from merely being a back-office support function, to a strategic business partner. And lately, it has become a key determinant of business models, fuelled by the convergence of the business and the information system (IS) function resulting in the tremendous agility in the way businesses operate. Key to this capability has been the recent shift in IT architectures:

- from the traditional physically constrained layouts into pervasive architectures
- from the pure automation of manual static processes to the orchestration of business services
- from the provisioning of information giving a historical perspective to the facilitation of insight into future possible outcomes.

Governments, tax administrations in particular, have not been immune to this development. The administrative processes of tax authorities are no longer static. The constant evolution undergone by administrations, against the backdrop of an ever changing world, the exponential sophistication of the taxpayer and rapid developments in the field of technology, requires and is indeed supported by this agility. Anywhere, anytime computing has become an integral part of many a tax administration.

The speed of this evolution and the ability for tax administrations to keep track introduces new risks of falling behind the constant metamorphoses that individuals and institutions undergo, resulting in the increased difficulty to service even the known needs within acceptable turnaround times. How better then to support these critical success factors, than to use information and information technology as catalysts?

Over the past 24 months SARS has had a comprehensive review of the key business processes, drafted a modernisation agenda and prioritised on initiatives with the highest leverage. As part of this agenda, new systems capabilities in support of the new business competencies were rolled out. This has resulted in a systems portfolio with functionality so rich that not only does it provide the necessary automation, but also provides an enhanced potential to gain a deeper insight into the various aspects of the business, through the provisioning of the necessary information.

Parallel to these internal developments, came a marked increase in transaction volumes, both due to the increase in economic activity and the fact that SARS had suddenly made it easier for the taxpayer to comply. Convenience, in this particular instance, came with additional exposure to potential risks due to the ubiquity in touch points, increased throughput and the required

accuracy in processing. The case to productionise control activities to ensure consistency in their approach, accuracy in the assessments and collections, and the need to ensure that the information is kept relevant at all times became stronger than ever.

Not unusual in such developments, the operators of the system did experience an exponential increase in the demand for more information, from the different levels and categories of the business custodians requiring an increase in data quality and quantity. Fuelling the need to have this information was also the fact that, unlike before, suddenly they could have it. The maturity of processes and the alignment of systems and human resources in order to facilitate the acceptable levels of service in the management of this information lifecycle became critical.

Globally over the years the functional owners have demonstrated an incremental appetite for better ways in which information could be provided to them, displaying a relentless attitude against a potential degradation in the said information, including it being late, incomplete, and incorrect, on a wrong medium and in the wrong format. SARS being a high throughput transactional environment renders the time dimension to be the most important of this quest. The current challenge is therefore not so much around the availability of the required information, but around the qualitative aspects of efficient and timeous information delivery. The introduction of control activities therefore becomes of paramount importance.

2. CONTROL ACTIVITIES

2.1 Electronic Filing

The ability for taxpayers, traders and practitioners to file online greatly enhances the potential to ensure quality submissions, in that the submission can viewed online until such time that there is satisfaction on the part of a filer that a legal declaration can be made. Also, the opportunity to file wherever and whenever affords the taxpayer to engage in the activities when it is most suitable, thereby increasing the ability to exercise due care. Also, where a practitioner files on behalf of a taxpayer there is an opportunity for the taxpayer to access the submission from wherever and be able to verify the contents of the submission. This also reduces repudiation risks and absolves the practitioner of potentially being party to criminal behaviour.

2.2 Online Submission off-ramps

The online submission system allows for the possibility of saving the form and being able to access it again for further updates. This control also allows

for due care in the capturing of the correct data by the taxpayer, thereby reducing error to be dealt with downstream. A submission can be finally made by the taxpayer once they are satisfied.

2.3 Automatic Tax Processor (ATP)

Is an application which receives all returns from the electronic filing channel, scanned optical character recognised returns, returns captured directly using the systems user interface, and returns captured on practitioners application, Easy File, which can be used to submit filed returns to the SARS main system remotely; to process it and send it to the Income Tax System for assessment and further processing, without any manual intervention. This serves as a control which reduces the time to assessment, while eliminating potential errors from manual calculations.

2.4 Pre-population of Returns

SARS requires periodic uploads of pre-determined information from third parties, in order to pre-populate the returns. The system triggers downloads of the required data to be used in the pre-population process. This control serves to eliminate mismatches due to captured information being different from information that SARS has already gathered from third parties. It also shortens the assessment process in that simple returns can be submitted promptly by the respective taxpayers without having to determine what needs to be captured.

2.5 Tax Calculators

Standard Tax Calculator - This calculator is available on the electronic channel to simulate an Assessment based on values supplied by the Taxpayer on the front-end.

Comprehensive Tax Calculator - In certain instances the calculation cannot be performed by the standard tax calculator due to data required on ITS. In these instances the calculation will be referred back to the core tax system, the calculation performed, and the calculated values passed to electronic channel front-end page. This control prevents requests for amendments and disputes that may arise post assessment in that the taxpayer can directly see the implication real time.

2.6 Employer Filing Season

An employers' solution that eases the Pay As You Earn reconciliation burden on SARS by:

- Providing a client application that will allow employers to perform PAYE reconciliation of their own records before submitting the data to SARS. This will ensure that certificate information reaching SARS is always reconciled with the employer's records.
- Allowing an employer to import payroll data into the client application that will be used for reconciliation purposes as well as for the creation, distribution and submission of tax certificates.
- Allowing an employer to manually capture certificate information throughout the year and maintain those records for reconciliation at year end.
- Allowing employers to electronically submit their employees' tax information to SARS only after reconciliation has succeeded on the employer's side.
- Receiving the abovementioned data from client applications and forwarding such information to the ATP system for processing.

The system clearly distinguishes between two types of employee certificates, namely:

- Certificates imported from a payroll application (Imported Certificates).
- Certificates captured manually on the PAYE application (Captured Certificates).

For employers who use the online (occasionally connected) SARS PAYE Application, they can only print or make imported certificates available electronically after they have successfully reconciled. Imported certificates can only be submitted after a successful reconciliation. Captured certificates can be printed or made available electronically after being submitted to the online system.

For employers who use the offline SARS PAYE Application, they can only print or make imported certificates available electronically after a successful reconciliation. Captured certificates can be printed or made available electronically at any time.

2.7 Tiered Service Centre

With regards to call centre interactions, depending on the complexity of queries, the resolution mechanism can be fully automated or passed on for further resolution. This service is tiered.

Tier 1: Voice - Interactive Voice Response (IVR) solution within the National Call Centre (NCC) environment. The IVR solution routes incoming interactions based on the required type and level of service. A simple query like enquiring on the Income tax return processing status, can be facilitated without any

human intervention. This expected to free up significant capacity in relation to the NCC agents.

Tier 2: Voice - Agents and consultants in the national call centre will resolve queries received in this channel. The agents and consultants will classify the queries, authenticate the Taxpayer, Trader or Representative, record the relevant case details and proceed to resolve the query. About 80% of all queries received are resolved by the 1st and 2nd Tier. If a query cannot be resolved in the 2nd Tier it is then referred to the Expert Centre for resolution by the Subject Matter Expert (3rd Tier):

Tier 3: All channels - Due to the level of depth of knowledge required for this service, it consist of highly skilled subject matter experts in the Expert Centre, who resolve complex queries referred from the 2nd Tier or from the various channels. The function of the experts is to support the 2nd Tier in terms of resolving complex queries and also authorise queries requiring higher levels of authorisation than what is available in the 2nd Tier. The 3rd Tier resolves queries referred from any channel where the Taxpayer or Trader might have requested a call back.

2.8 Offline System for Bulk Capture

This is the Offline system used for capturing returns on the Branch Front desk if the system is offline. It is used as a control to allow the users to continue with the workload of capturing returns and later being able to submit them without losing much productive time. Once the system is back online, the synchronisation process can be kicked-off and the returns sent to the ATP

2.9 Scanning of Documents and Digitization

In cases where returns are filled in manually and sent for processing a control measure, based on optical character recognition, to digitise them is deployed as close to the source as possible. Documents are scanned and converted to xml format and sent through the system for automated processing. Where the writing is not machine readable, a double checking process kicks in whereby the scanned document will be subjected to two verification steps to ensure that what is ultimately reflected on the system is what was originally written on the form. Scanned documents can be viewed in the same format as was scanned in, or in the generated xml format. This ensures minimised capturing effort which is prone to human error and accuracy in processing. Moreover, the reference point is always available electronically in the original format within a document management system. This also satisfies the requirement to keep original documentation for prescribed periods of time without occupying much physical space.

2.10 Threshold Amounts for Submissions

Thresholds are set for the submission of tax returns to avoid undue processing effort on what would ordinarily be a simple return. If the individual taxpayer has earned less than R120000 per year from a single source of income, they are not required to submit a tax return.

2.11 Third Party Data

The enforcement nature of the business of SARS requires of it not to only rely on volunteered information, but also on external data sources, of which some reside within the broader state infrastructure. Furthermore, SARS occupies a critical position within the broader value chain of the administration of the State's financial resources. It therefore has bestowed upon it a joint responsibility, however small or large, of ensuring that the value of contributions collected from the citizenry, is preserved. Participation from the third party data providers is normally at acceptable levels, without compromise to the applicable legal framework.

2.12 Online Password Reset

This prevents clogging the support resources with requests to have the passwords reset particularly when it has been a while since the system was last used. The process of resetting passwords is automated and reduces the burden on the call centre.

2.13 Different Filing Seasons

Incentives for the control of peak filing periods are also advised in order to avoid an avalanche of activities during filing season. Manual submissions have a different filing period to those which will be filed electronically. This also places a lesser strain on the requirement for controls.

2.14 Dynamic Forms

The use of system generated dynamic forms ensures that the taxpayer is not subjected to irrelevant sections which may inadvertently be filled due to the possibility. The system generated forms are customised according to the taxpayer's needs.

2.15 Risk Engines

On the customs side, SARS has a real time transactional risk analysis tool that interacts with the Customs Core processing systems by risk analysing all customs transactions. Several methods are used in the determination of risk.

Method 1 is where a trap rule is set and the consignment is stopped (High risk). Method 2 is where a total score is allocated to an Importer or Exporter based on his past behaviour. Method 3 is random sampling on purpose codes.

There is also a Corporate Income Tax risk assessment tool used to identify high risk Company Income taxpayers. Risk areas and indicators are sourced via different information collection methods. The risks identified are then assessed and prioritized in order to update the knowledge base within CIT. CIT screenings are performed periodically. However adhoc screenings for sector/ segment based on a specific client list can be entertained. Different levels of risk are identified, from the highest risk score to the lowest. The CIT allows the risk profiler to investigate taxpayers based on their risk profiles. It also contains the risk element of the evaluated returns and constitutes the risk information to be used in the selection process.

Personal Income Tax also has risk engines that map certain aspects of data against certain criteria and norms that would, for instance, be prevalent within that specific activity group. These engines have very complex functionality which is able to kick out exceptions according to predefined criteria, and thereby trigger auditing processes which might help identify inadvertent errors or deliberate fraudulent activity.

2.16 Issuing of Tickets to Acknowledge Attempt to Comply

When a branch office cannot assist taxpayers in submitting returns due to system problems or time constraints due to volumes, they can issue an e-ticket to the taxpayer that will give a 14 day extension on submitting the return after the due date. This controls against the potential disagreement around the intention to comply and the availability of service.

2.17 Knowledge Base for Agents

The knowledge Base site is created for the support of agents in the Call Centre or users at SARS branch offices to search for sanitised and approved answers to frequently asked questions (FAQs) received from taxpayers, traders or tax practitioners. The control value of the database lies in its support for consistent responses to specific queries by different SARS people. The system also enables users to add enhancements by adding content by submitting suggestions indicating how the content may be improved.

2.18 Assisted Front Office

SARS makes use of subject matter experts based assistance in branch front offices. This covers the tax base that would not ordinarily have the expertise to furnish the administration with the necessary submissions due to issues

like literacy. The front office is staffed by several levels of expertise, with the ability to allocate the appropriate resource for the level of complexity inherent in the requirement.

2.19 Effective Financial System in Support of Payments

The Financial Management of the administered revenue is comprised of a suite of integrated systems which are a combination of bespoke systems customised to SARS requirement and the utilisation of commercially off-the-shelf applications which, even though they come embedded with best practices, were configured to suit the SARS environment to ensure the following key requirements :

- Ability to have direct interfaces with third parties, including banks and the National Treasury
- The ability to determine the current financial obligation by the taxpayers and practitioners, and the online system availability to be able to effect payments real-time, anywhere, anytime
- The assurance of transacting in a secure environment and the ability to verify the receipting of payments by SARS
- The prompt adjustment of balances to reflect the latest possible position upon the receipt of such payments
- For point of sale (collection) transactions, improved verification and controls, resulting in improved data integrity of revenue accounting information
- Fast processing and confirmation of financial transactions
- The ability to aid compliance to the Generally Recognised Accounting Practices (GRAP) and the Public Finance Management Act (PFMA) using systematic support and processes to improve the quality of available information;
- Improved verification of receipting information at the point of capture and take-on, resulting in improved information accuracy and the reduction in the number and frequency of postings of unallocated and mismatched receipts to dummy accounts;
- For auditing and tracking purposes, the ability to track the processing of receipting and refund data between all system components involved

3. DESIGN CONSIDERATIONS FOR SETTING A FOUNDATION FOR CONTROLS

3.1 Application Integration

Several factors, including silo'ed application design and the maintenance of management information external to core applications, can be attributed to potential data degradation. Traditionally organisations have a clear demarcation between information coupled with business process applications and information coupled with business intelligence. Such designs advocate the consumption of different information types by different application classes. The core business systems of SARS, geared towards the collection of the different types of taxes and customs, were originally designed to function independently. Directionally SARS began a journey to change this configuration, despite the prevalence of complexities around achieving an integrated tax and customs systems environment, within a short space of time. Intermediate systems processes to transform the data in order to provide an integrated picture therefore become inevitable in the short term.

The principles of application integration, while they promote a shift from application-centricity in metadata design, generally discourage the enterprise's tolerance for a silo'ed application approach, giving way to loosely coupled application designs with increased semantic resonance across the application landscape. SARS aspires to this model design and it is within the Modernisation agenda to achieve this integration. The manner in which the integration can be achieved, becomes a subject of sound scrutiny and an informed design, going forward. The legacy environment which has the core systems packed into silo's with different databases for different systems environments, brings immense complications to governance around who has primary responsibility for certain steps of the information value chain.

Within the SARS landscape the currently tightly coupled information systems will gravitate towards hybrid models; and eventually end up loosely coupled thereby ensuring agility within short time frames, at reasonable costs, for any further change requirements on the organisation.

3.2 Pervasive Technology architecture

Pervasive computing relates to the availability of planning and execution activities from multiple locations, utilising a proliferation of IT devices with real time processing capabilities. SARS takes full advantage of this offering with its sophisticated systems portfolio incorporating electronic filing and payment capabilities.

3.3 Robust Information Security Management as a culture

Information Security which implies the appropriate protection of information resources and information systems in terms of confidentiality, integrity and availability is very high on the agenda of SARS.

Looking at the enterprise from an information security posture, there are two primary areas given consideration:

- External risk mitigation countermeasures
- Internal risk mitigation countermeasures

It is every organisation's prerogative to ensure that a security-conscious culture is fostered. As a result information security awareness campaigns have been introduced to raise the level of awareness across the enterprise. Presentations have been conducted at the main regional offices. An online security awareness training course has been implemented to encourage the fostering of a more security aware culture within SARS, across the enterprise.

There has been a recent introduction of an enterprise risk & intelligence committee comprised of senior representatives from various SARS divisions. The focus of this committee is to establish the security risks within a certain number of predefined areas within SARS and to propose and monitor the implementation of appropriate mitigating controls. This extends beyond the scope of technical information security. In the short, medium and long term, these controls will be reviewed, revised and propagated throughout the enterprise. In addition to this, external security audits are conducted on a regular basis which facilitates the implementation of recommended resolutions to security findings and shortcomings. This includes process and technology controls.

Information Security Management is a journey. Even though timelines have been attached to planned activities, due consideration is given to the ever changing Information Technology landscape, where a tactical reaction can be necessitated due to newly emerging risks at any given point in time.

3.4. Managing Information as an Asset

Enterprise Information Management is an enterprise-wide discipline which seeks to ensure that there exists a co-ordinated process that maintains a "single version of the truth" through the management of information, and that relevance of the information provisioned is proven in its accuracy, consistency, integrity and validity.

EIM is a set of processes, policies and systems which facilitates the optimal provisioning, uniform interpretation and holistic consumption of structured information primarily by man and machine; and unstructured information primarily by man for the fortification of business functions.

The key to sound EIM is the maintenance of focus on information value. For some organizations, a centralized data warehouse for consistent aggregation of data is all that is required. For others, a centralized repository of metadata is what is needed. For others, a distributed, message-based workflow management model is the goal. EIM does not prescribe the solution; it outlines a framework for you to achieve the objective of semantic reconciliation using a range of tools, technologies and techniques.

However, there still exists three possible configurations for the support of information provisioning, which are :

- Point-to-point application integration, keeping different application domains, with message based workflow
- Data aggregation through a data warehouse
- Application stack independent, enterprise wide metadata to drive semantic data consistency. This prevents a situation of having different information classes for business process application use and for business intelligence use. It cuts out the need for further transformation, where the risk of quality compromise sets in.

The SARS picture, which has a heterogeneous data environment, is a combination of the configurations above. While the third one would have been the most preferred and better operable, it would be difficult to achieve considering the existence of a legacy environment. However, there are various methods that can emulate data consistency including the creation of second generation master data and/or metadata stores at any stage during an electronic process execution, eg. permanently or at runtime. At SARS we have what we refer to as the UT3M (Unified taxpayer, trader, third party master data). Data quality issues result from data inconsistency issues. Information and information artefacts re-use is just as important as application component re-use. Information leverage gets enhanced through data consistency.

4. ADMINISTRATIVE STRUCTURE

SARS required a differentiated approach to engaging with taxpayers and traders based on an understanding of their revenue contributions, service requirements and risk profiles, in order to develop and execute a more dedicated and effective compliance strategy.

TOPIC 1.2 (South African)

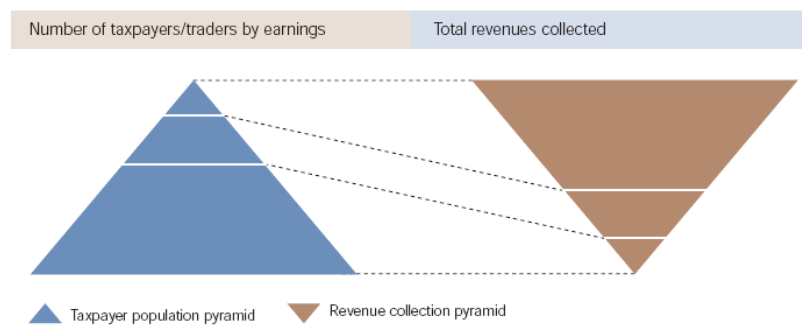
An analysis of our current taxpayer and trader base identified three primary taxpayer/ trader clusters:

- Small number of large corporations and individuals with high average tax revenues;
- Growing number of small and medium enterprises and middle class; and
- Large micro/ informal base with low average tax revenues.

When looking at total revenue collected there was an inverse relationship to our taxpayer and trader base.

Analysis of current taxpayer and trader base

Most revenue is collected from a small group of high revenue taxpayers.

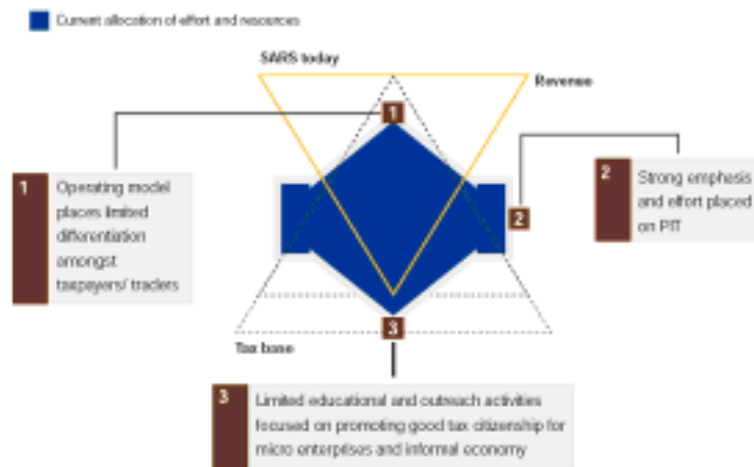


SARS's operating model, however, did not sufficiently recognise this inverse relationship with limited variation in approaches with regard to compliance, debt collection, customer service and education for taxpayers and traders.

This resulted in a disproportionate allocation of resources with:

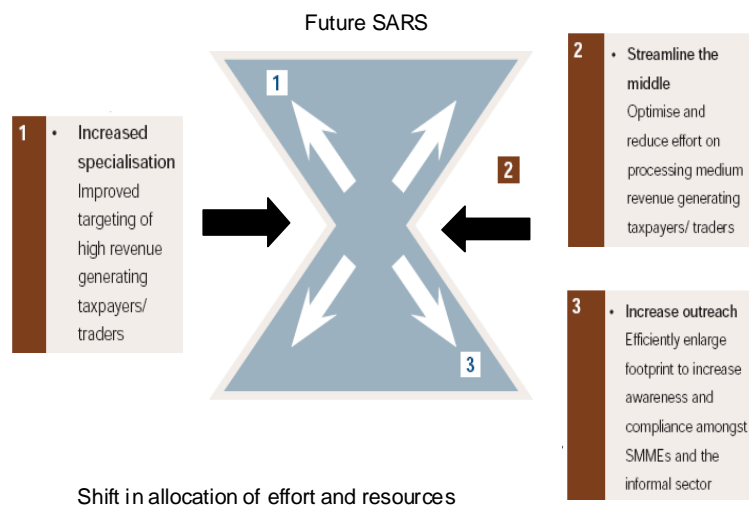
- Insufficient resources servicing high revenue generating taxpayers and traders;
- Minimal focus on increasing penetration in the small enterprises and the informal economy;
- Excessive emphasis on servicing our traditional income tax base.

Previous operating model



As a result of this greater understanding of taxpayer and trader segments, SARS is in the process of implementing a differentiated business model which is allowing us to manage capacity and decrease the burden on the taxpayer through reconfiguring our operating model to meet differentiated requirements.

Future differentiated operating model



5. LEGAL FRAMEWORK

The laws that govern SARS as a statutory body established by the SARS Act of 1997 prescribed the functions of SARS to secure the efficient and effective, and widest possible, enforcement of the national legislation listed in Schedule 1 to the SARS Act. Schedule 1 to Act includes numerous "tax acts". Most of these Acts prescribe the specific administrative powers of SARS to enforce the relevant Act, while others cross-refer to the more general administrative powers of SARS as prescribed in the Income Tax Act.

The maturity of legislation around the use of technology as a control mechanism, are not at a fully mature stage. Generally though, the Electronic Communication and Transaction Act (the ECT Act), allows the use of electronic communication (email, fax, online access of and submission of information on a server/information database etc.) in respect of the communication and the provision of information usually submitted by traditional means (postal or physical delivery or service of documents or information completed in a hard copy format) UNLESS the use of such traditional means is mandatory (prescribed by law). For example, the High Court Act read with its rules requires physical service and delivery of court papers (although in some countries electronic filing of court papers are now permitted).

A specific Act, such as the Income Tax Act, may amplify or deviate from the general provisions of the ECT Act, in which case the provisions of the specific Act would 'override' the provisions of the ECT Act. Where an Act is silent on the use of electronic communication the provisions of the ECT Act would apply. In this regard, some of the tax acts specifically indicate under what circumstances and format electronic communication may be used. For example, in terms of regulations issued under the Act, taxpayers may submit returns in electronic format by using electronic communication channels (e.g. SARS eFiling server) in the manner as prescribed in the regulations which also allows SARS to also accept electronic or digital signatures as valid signatures in respect of returns.

Therefore, where permitted either generally in terms of the ECT Act or specifically in terms of a tax Act, SARS may permit the use of electronic communication for purposes of the fulfillment by taxpayers of their various obligations such as registering or submitting returns / declarations, and SARS may use electronic communication to procure information (whether from taxpayers or third parties) for verification or audit purposes.

In the context of collections, electronic communication may similarly be used to trace taxpayers or assets or communicate with defaulting taxpayers or

third parties who can assist. For example, the appointment of an agent in terms of the Income Tax Act may be done electronically as the physical delivery of the applicable notification is not mandatory. However, the institution of civil proceedings to collect a debt, such as the filing of a statement with the clerk of a Magistrate's Court and most subsequent formal processes, cannot be done electronically.

In the context of payments by electronic means (regarded as 'electronic transactions' as defined in the ECT Act), where this is not prohibited by a tax act it would be permissible to use such means for payments to and by SARS.

The common law principles regarding repudiation, a term essentially related to the denial or disowning of a contract, signature or information submitted, would apply irrespective of whether normal/traditional or electronic means of communication / transacting were used. The ECT Act specifically provides for attribution of the same evidentiary value to electronic communications or transactions, provided that the applicable requirements regarding electronic signature and the preservation of the integrity of electronic data, including any document or information submitted online prescribed by the ECT Act, are met.

The procurement and use of any information irrespective of source lawfully obtained by SARS in terms of its administrative powers to do so as prescribed in the tax acts may be used for purposes of the relevant tax act as prescribed by such act.

6. CHALLENGES

The advent of convergence, wide scale automation, technology driven business solutions and the emerging technology savvy business domain manager has propagated the existence of the IT function across many (traditionally) business functions. The resulting federation of the IT function brings with it a major challenge of ensuring consistent quality matrices through an integrated governance process.

The proliferation of technology devices and the ubiquitous nature of access, has further increased the vulnerability on IT security in general. Internally, SARS is still on a critical path of the modernisation agenda which, among other desired objectives, seeks to automate the business processes in order to achieve the much desired simplification. The current state of business processes would render attempts to drive blanket best practice policies on information security counterproductive, inadvertently resulting in a negative effect on business responsiveness.

The issue around Information Security remains on the top of most agendas with some developing countries engaged in band-aid efforts of managing residual risks while some developed countries are indeed on the pro-active side of managing the inherent risks so well that the residual risks are minimised.

The availability of skills remains an issue. Internal capability for systems maintenance is the engine of a tax administration. All efforts need to be made to develop capacity and capability from the inside. The use of external suppliers to operate the environment is severely discouraged except for infrastructure, facilities and hardware support which is not regarded as core. This, however, is unfortunately not always possible. Collaboration with the private sector in the development of specific software where it matters seems to be commonplace.

7. CONCLUSION

The general direction that the different Tax Administrations are embarking upon is that of the automation of processes. Different countries come in at different stages of development, where some are moving from a paper based environment, some are modernizing what they currently have and others are complementing what they have with additional capability. The semantics around "online" service revolution also have different interpretations with the lesser developed countries assigning a meaning of elementary process automation to it, while the more developed countries referred to the leveraging of the world wide web and internet in general. Several channels, however, still remain at play. The different channels identified include the normal over-the-counter service, the intermediaries which perform the electronic capture on behalf of the taxpayer, the individual direct submissions via the internet, and tele-filing via telephone.

The different permutations afforded the taxpayer, and the flexibility around physical location requires the embedding of control activities within system driven capabilities. In order to strengthen the capability, several levers with the required functionality must exist within the technology domain. The key levers must include the ability to profile the taxpayers, and the appropriate resources to segment the tax base in order to provide a differentiated service.

IT needs to be able to support a nimble and responsive tax administration while ensuring a lower cost of compliance and increased productivity. It must enhance integrity and provide better control of corruption risk. While the systems which support the operations, inherently, produce large volumes of data, care needs to be taken not to keep unnecessary data but ensure that management information for policy and decision making is fully supported.

With regards to which direction must be taken in the development of these systems that provide the necessary controls, many administrations tend to favour packaged solutions as opposed to bespoke development. Packages which are perceived to already possess most of the functions, have installed bases and are tried and tested. They are also seen to be cheaper to implement, except in cases where there is a less than 80% fit. However, due to the non-proliferation of tax administration specific software, many tax administrations still develop their own solutions. SARS utilises a mixture of both, with the back office running on commercially off the shelf software and the core systems supported by bespoke systems. Best fit AND best practice drives our agenda going forward. It is therefore important to know what the organisation requires, understand the current environment (data sources, analytic capabilities and toolsets), determine the GAP and compose the roadmap to accomplish the enterprise goals identified as being of utmost importance.

Most importantly, however, SARS has over the past few years developed into a centre of excellence within the broader South African government due to the flair displayed in the effective and efficient execution of its mandate. The requirement for responsiveness, bias for action, commitment to deliver, learning experience and the competencies that have subsequently developed elevated the institution into a thought leadership status that more and more of the state institutions turn to for guidance. IT has played a key role acting as a lever to ensure sustainable delivery.

Furthermore, SARS occupies a critical position within the broader value chain of the administration of the State's financial resources. It therefore has bestowed upon it a joint responsibility, however small or large, of ensuring that the value of contributions collected from the citizenry, is preserved. The enforcement nature of the business of SARS requires of it not to only rely on volunteered information, but also on external data sources, of which some reside within the broader state infrastructure.

Case study

Topic 1.2

THE PROMOTION OF MASSIVE CONTROL ACTIVITIES (FILING AND PAYMENT)

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National Superintendence of Tax Administration
(Peru)

SUMMARY: 1. Background.- 2. Improvements to tax return filing and payment process.- 2.1. Telematic tax return program (PDT).- 2.2. Easy payment system. - 2.3. What's forthcoming.- 2.3.1. Virtual SUNAT simplified return.- 2.3.2. Online tax return and payment from banks.- 3. Quality information management process. - 3.1 Management of returns' inconsistencies.- 3.2. New approaches in data quality control.- 4. Virtual control center. -5. Conclusions - Annexes

1. BACKGROUND

One of the tax administrators' main concerns is the implementation of strategies to expand control coverage of taxpayers and its objective is to permanently guarantee a high level of tax duty compliance; therefore, control actions are expected to reach the largest possible number of taxpayers and that they are implemented through fast and efficient actions, and at low cost.

To be efficient, a mass control program requires implementation of control actions that generate a high perception of the detection and sanction on the part of tax administrators. Inasmuch as the increase in the perception of exposure generated by effective control actions has a multiplying effect in the degree of taxpayers' compliance who contemplate not fulfilling their obligations.

In this regard, one of the most important features of control for a tax administrator refers to duties compliance control, such as timely filing of tax returns and payment of the corresponding debt; in addition, the tax return should correctly state the facts generating the taxpayer's tax liability. Concerning these control features, the Superintendencia Nacional de Administración Tributaria (SUNAT by its abbreviation in Spanish)[National Superintendence of Tax Administration], has developed several processes and tools to obtain information that support mass control of tax obligations in an efficient and timely manner.

The first component to take into account for an efficient duties control, is the timely delivery of tax returns by banking institutions, and alternatively, return processes and payment online with SUNAT through the use of its website. In turn, these processes require the support of automated routines to ensure the quality of the information filed.

The most recent developments performed by SUNAT in this regard will be presented in this document. Improvements made to the Filing and Payment process will be presented which have been carried out through advances in the virtualization of the Return, the development of Simplified Tax Returns implemented online in the website, and the development of online payments from the banks.

In addition, SUNAT's experiences in the development of information quality control processes will be presented, basically concerning Management of inconsistencies in the Returns, and a new approach being developed in order to have an integral information quality control process.

Lastly, the scope of the new mass management process of tax return inconsistencies will be presented through the Virtual Control Center.

2. IMPROVEMENTS TO TAX RETURN FILING AND PAYMENT PROCESS

One of the principal means to ensure quality of the information and effectiveness of mass control actions is the use of telematic tax return in lieu of paper. Depending on the type of taxpayer, these could be made through the Telematic Tax Return Program (PDT by its abbreviation in Spanish), or the Easy Payment system.

2.1 Telematic Tax Return Program (PDT)

Software developed by SUNAT which is provided to taxpayers free of charge to prepare the tax return. It includes validation, arithmetic calculations, and help to fill out the Return, allowing timely detection of calculation errors prior

to filing. This program generates the telematic Return, which can be filed through the SUNAT website: SUNAT Virtual, or at the banking agencies.

It should be mentioned that payment can be made through the Internet, using one of the following options: payment with a debit or credit card, payment through an account previously registered, or charged to its drawdown account.

To ensure the taxpayer that the information will only be seen by the Tax authorities, it is automatically encrypted at the time of generation. In addition, the system requires the taxpayer to enter a security password in his Return, which is unique for each taxpayer and is generated, free of charge through the Internet: the forwarding password. This password ensures the taxpayer that the tax return has been generated by him/her, thus avoiding rejection.

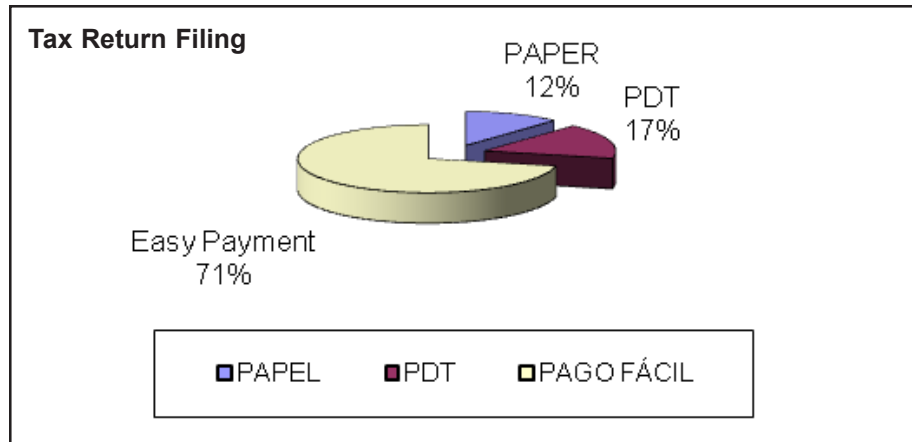
In order to assist taxpayers who do not have a PC at home or company, to prepare their tax returns through the PDT, SUNAT has installed PDT Booths in all its Taxpayer Service Centers at national level. Through this service, the taxpayer uses a PC and a printer if needed, and can ask for assistance to download the PDT and to fill out the Return.

2.2 Easy Payment System

Facilities to file the tax return and make payment without forms, addressed to taxpayers who do not have complex operations such as taxpayers from the New RUS (tax regime for MYPES) [Micro and Small Enterprises] who receive first category revenue, payment of collection documents, installments, among others. Through this system the taxpayer verbally or through a guide provides the data necessary to the bank teller. The teller then validates the information online, providing a receipt of the transaction made.

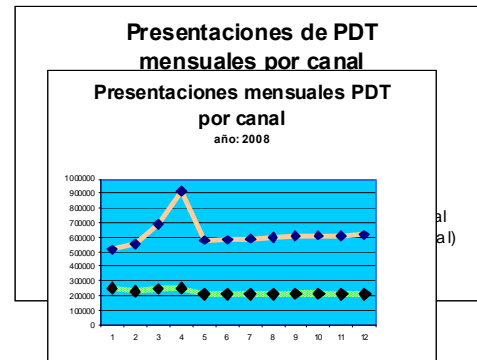
In general the use of Telematic Tax Return constitutes a significant portion of statements filed. As can be seen in Chart No. 1, during 2008, 17% of tax returns were filed through the PDT, 71% through Easy Payment and only 12% in physical form (paper).

Chart No. 1



On the other hand, regarding the PDT presentation channel, as can be seen in **Charts Nos. 2 and 3**, use of Internet has increased, which is greater on the due date for Tax Return filing (end of March, beginning of April). For example, as of the month of January 2009, 76% of Returns prepared through the Telematic Statement Program have been filed through this channel, of a total of 848,408 tax returns received in this period.

Chart No. 2



2.3 What's Forthcoming

In addition to these improvements, we are trying to simplify the tax returns filed by taxpayers specially the ones filed by the MYPES, whose operations are not too complex and therefore an electronic form would be feasible - Simplified Tax Return - to replace the Telematic Tax Return Program.

On the other hand, there is the need for the information from returns and payments made through the banks to be transmitted online to the tax administrator in order to potentiate mass control on filing and payment.

2.3.1 Virtual SUNAT Simplified Return

Through this system the taxpayer prepares and files his tax return directly on the SUNAT website: SUNAT Virtual. The features of this system are:

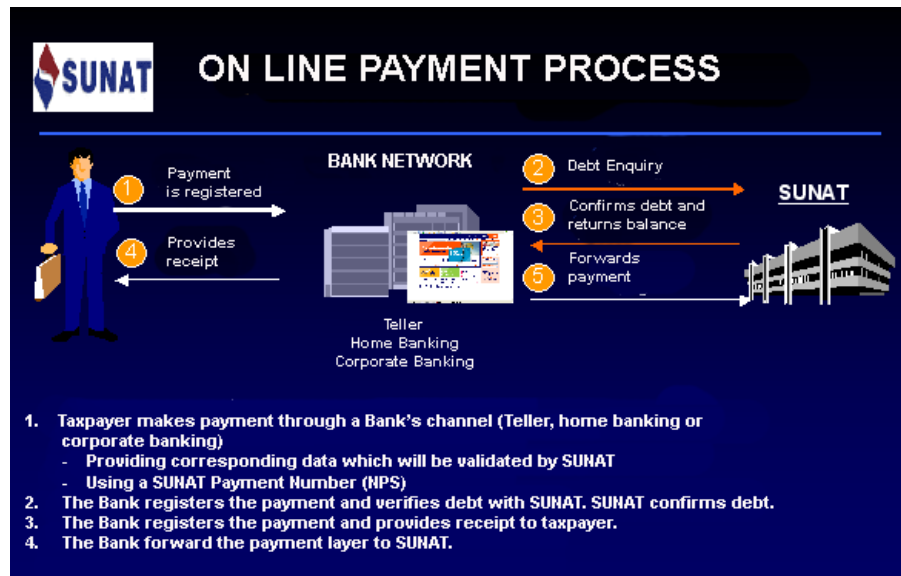
- This is addressed to taxpayers who have little information to declare in the month whether because they are part of special treatment (New RUS or Special Revenue Regime) or that being part of the General Income Tax Regime have a limited number of entries to make (whether because the period was slow, or because only purchases and sales are levied).
- By being online with the administrator, the taxpayer can validate the return with the SUNAT database thus avoiding errors in filling out the information.
- By being "connected" to the SUNAT the taxpayer can receive feedback regarding errors in previous returns or pending debts, thus becoming a means of mass control.
- In addition to the means available for payment through Internet, payment through a number generated by SUNAT Virtual is added: SUNAT Payment Number (NPS by its abbreviation in Spanish), which will allow immediate payment or later through a bank teller, in which case the bank teller should be provided with: the RUC and NPS numbers. This will allow banks to enable this type of payment through other channels such as: automatic teller, its website, POS (Point of Sale) and telephone.

2.3.2 Online Tax Return and Payment from Banks

This new process consists of online filing (that is, at the moment the taxpayer files the return before the bank teller) of data and payments performed through the Easy Payment System to SUNAT. To this effect a new system of communication with the banks will be implemented, which will imply keeping a communications line for the transmission and confirmation of online data.

The procedure for this new online data transmission process will be as follows:

- Transaction is initiated at the bank teller
- The bank registers the return data or the payment slip entered through the easy payment system
- Sends the data online to SUNAT (XML Layer).
- SUNAT returns the validated results and the assigned order number of the return or payment.
- The bank completes the transaction by submitting the definitive data and registers payment data.
- SUNAT registers the tax return data and/or payment on its database.



Benefits from Online Filing of Tax Return

For the Taxpayer:

- Allows immediate verification that the tax return or payment was received by SUNAT.
- Allows requesting SUNAT discontinuance or release from coercive collection measures immediately after payment is made, not having to wait for information to be submitted to SUNAT in the traditional manner (approximately 3 working days).
- Provides taxpayer with greater assurance regarding correct compliance of its tax duties.
- Reduces the probabilities of errors in the tax return.

For the Tax Administrator

- Availability of information at the same time the tax return is filed and/or payment is made at the bank.
- Improvement of information of return filed and/or paid.
- Allows online application of payments to pending debts.
- Allows timely initiation of control actions or to stop them as the case may be.
- Reduces the need to allocate resources to verify if taxpayers have made payments which have not yet reached SUNAT.

- Allows better communication with taxpayers.
- Reduces subsequent monitoring actions of data entered since it is validated online.
- By having defined a data transmission scheme using MQ series technology, when there are failures in the communication SUNAT/BANK, tax returns and payments continued to be received, information being transmitted once communication is reestablished.

The online return filing and payment process will also allow SUNAT's mass control actions to be potentiated by being an online interaction channel of the taxpayer with the tax administrator, the collection bank being the intermediary.

For example, in the acknowledgement receipt that the bank will provide the taxpayer, the inclusion of a personalized message from SUNAT has been contemplated. This message may include reminders of due dates of their returns and installments, fiscal domicile updating in case the taxpayer appears as "Not Found", and a reminder of a pending debt.

3. QUALITY INFORMATION MANAGEMENT PROCESS

The sources of information constitute an important part of the assets of modern tax administrators. In SUNAT's case, having quality information is a determining factor due to its intensive use in the implementation of mass control actions.

SUNAT uses information that comes from internal sources, which are originated in the Statements of Payment and Control, as well as from external sources: information provided by private or governmental agencies, within the framework of information exchange agreements.

In order to be able to use this information in the various processes, it must be trustworthy and of good quality since any inconsistencies would have a negative impact on decision making and eventually in an inefficient allocation of resources on the part of the Tax Administrator.

Within this framework, it is necessary to have data quality control processes which include preventive and corrective measures, ensuring that informer and informed subjects are correctly identified, that the amounts declared are consistent, and in general, that the information be trustworthy and of good quality, to minimize errors and potentiate the Administration's main processes, among them mass control.

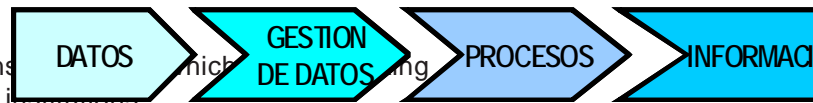
Data quality control processes implemented by SUNAT to date, are geared to the design of programs and tools that allow the prevention, detection and correction of inconsistent data that generate non-trustworthy information, as well as to make observations and recommendations resulting from the analysis made that result in subsequent optimization of the processes.

ENTRY

EXIT

The main sources of information come from third party statements called "Informative Statements", taxpayers who provide detailed information on operations they had with other taxpayers, which allows cross checking of information, of that declared by the taxpayer versus the information provided by a third party who interacted with him. Some of the sources of information used by SUNAT are:

- Operations with third parties annual tax return (DAOT by its abbreviation in Spanish)
- Withholding agents returns
- Transfer prices return
- Statement of Financial Transactions (which reports the taxpayer's operations). This is filed by banking institutions.
- Notaries Annual Returns, which report the purchase and sale of real estate and vehicles, as well as mortgages, pledges, advancements, leasing, etc.
- Public Record Information: real estate and vehicle properties.
- First Category Revenue: in their Annual Tax Return natural persons identify their tenants.



As the need for information for mass control of sworn statements, the detection of types of evasion, and the selection of taxpayers to be monitored have increased, new approaches have been developed to ensure information quality, some of which are described below:

- Incorporation in the PDTs of detailed information to support the amount of the operations that significantly affect determination of the tax debt.
- Implementation and progressive expansion of obligors to file information returns, through which a group of taxpayers are requested to provide information related to their operations with third parties.

- Implementation of the Information Plan through which public and/or private sector institutions are asked to provide information related to their activities or with that which regulates it. The information plan describes the sources, the information requested and its use.
- Information exchanged with external entities through interagency cooperation agreements.

It should be pointed out that prior to data submission by external agencies those agencies receive data verification programs to allow for validation of data structure consistency. Once the information has been analyzed it is again validated and if problems are detected, its correction is requested.

Following is a description of SUNAT's experience concerning implementation of some specific processes of information quality control, as well as new approaches being developed on this subject.

3.1 Management of Returns' Inconsistencies

SUNAT relies on a centralized Data Warehouse¹, which validates information incorporated through returns, which allows the initial detection of problems in the data.

It also relies on quality control processes of tax returns data which allow validation of inconsistencies in taxpayers' monthly statements such as: Operations with third parties annual tax return (DAOT) and the Withholding Agents Returns (DAR). These data quality control processes - currently implemented - have the following functions:

- Information validation and consistency, through computer cross checking and programs that detect inconsistencies, as well as data cross checking between tax returns and those filed by third parties.
- Results analysis and determination of universe to be managed.
- Data visual management: procedures are established for Administrator staff to assess inconsistencies.
- External management of information: Implementation of a campaign to notify informants so that they voluntarily rectify the inconsistencies detected.
- Follow-up to rectification procedures (submission of releases and rectifications).

¹ Database consisting of a copy of the transactions databases, structured specifically for consultation and analysis.

TOPIC 1.2 (Peru)

For example, for the filing of the Annual Income Tax Return of Natural Persons campaign, the main problems to be encountered with the data obtained are:

- Errors in identifying taxpayers and persons notified by third parties through their returns.
- Registration of an amount which does not reflect the actual level of operations carried out.
- Inadequate use of parameters defined by the Tax Administrator (for example, amount of revenues, tax deductions, payments, retentions, etc.).

These inconsistencies are managed by the following data quality control processes:

- **Identification of inconsistencies**, management process that seeks to correct inconsistencies appearing when incorrectly attributing sale and/or purchase operations to a taxpayer, when an incorrect number is used.
- **Inconsistencies in sales and purchases amounts**, a process to manage the difference between the total amount of sales and purchases notified by the taxpayer versus that notified by third parties who interacted with him/her (data obtained through the DAOT).

The inconsistencies analysis and detection work is performed at the Data Warehouse through SQL consultations that allow mass data error identification.

On the other hand, the following specific data quality control processes for several information sources with inconsistencies are implemented:

- Taxpayers roll management (pilot test)
- Deceased taxpayer management
- Data quality control processes related to social security
- Public Records data management

Chart No. 4 shows figures related to registration management implemented:

Chart No. 4

Type of Management	Number of Cases Managed 2008
RUC Roll Inconsistencies	68,000
Deceased taxpayers	56,000
Pension and social security charges	4,500
Public Records Data	724,000

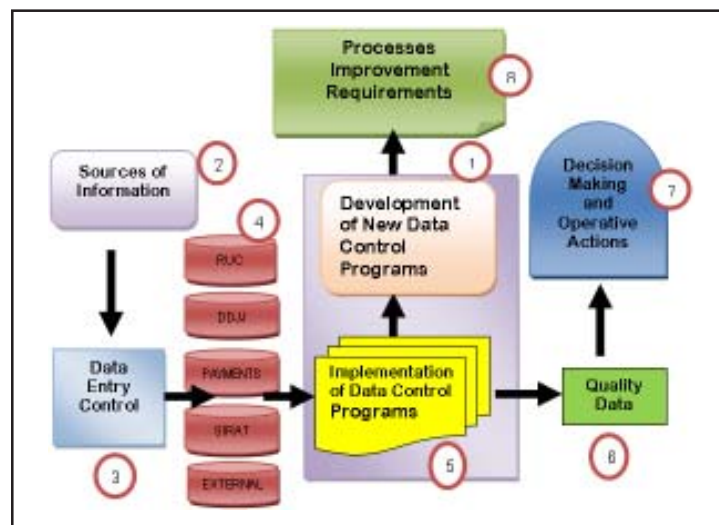
3.2 New Approaches in Data Quality Control

Even though specific process of data quality control has been developed, it is necessary to generalize these types of solutions in order to improve the quality of the information used in all processes. For example, permanence in time of certain data quality control programs have allowed improvement of quality of some returns since its continuity helps to generate consciousness of the importance of filing data correctly.

Accordingly, a new approach is proposed for SUNAT's data quality control process giving emphasis to factors referring to timely detection of errors, validation, remedies, prevention and control of data inconsistencies control.

The principles of this new approach are:

- Data quality control becomes effective through Data Quality Control Programs consisting of the definition of the data management procedure and the development of management support computer tools. This development is implemented with the participation of operating areas according to the type of management guided by the unit responsible for data quality control.
- Implementation of the programs is the responsibility of the data quality control unit, with the support of the areas of taxpayer or external supplier (outsourcing) services.



Based on these principles, SUNAT has been developing the "Institutional methodology of data quality control" project whose main features are the following two deliverables:

- **Data quality control general procedure:**

This procedure will determine the areas responsible for determining and approving the data quality control programs, the types of data quality control by program, the communication channels between the operating areas and the data quality control area, the parameters to determine if a set of data is to be arranged. It will also determine the approval procedure of the annual data quality control plans.

- **Computer platform for data quality control**

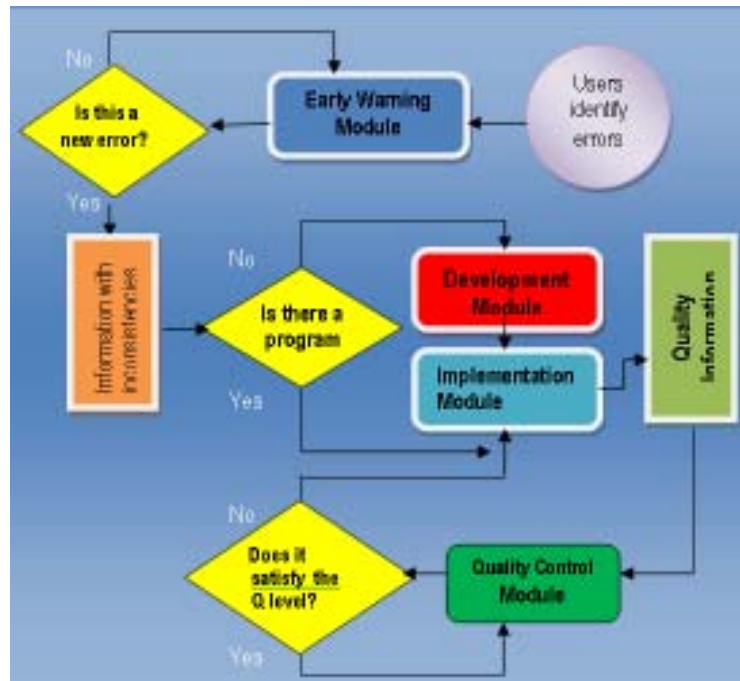
That foresees development of a computer platform to allow keeping data quality control from the initial analysis of data up to the quality control of correction of inconsistencies managed. This application will consist of the following modules:

- I. **Program Development Module**, which will keep a record of all sources and/or processes that, will be evaluated to be incorporated to the data quality control plan.
- II. **Program Implementation Module**, which will allow control of the implementation of the programs included in the data quality control plan. The functions by type of activity are the following:

Activity	Function
Detection of Inconsistencies	Load of inconsistencies
Case Programming	Selection of cases by type of data quality control
	Generation of information associated to control
Data quality control	Entry of answers: By agents (individual and mass) and by taxpayers (individual)
	Evaluation of visual control
	Evaluation of rejection of inconsistencies
Results Evaluation	Control reports

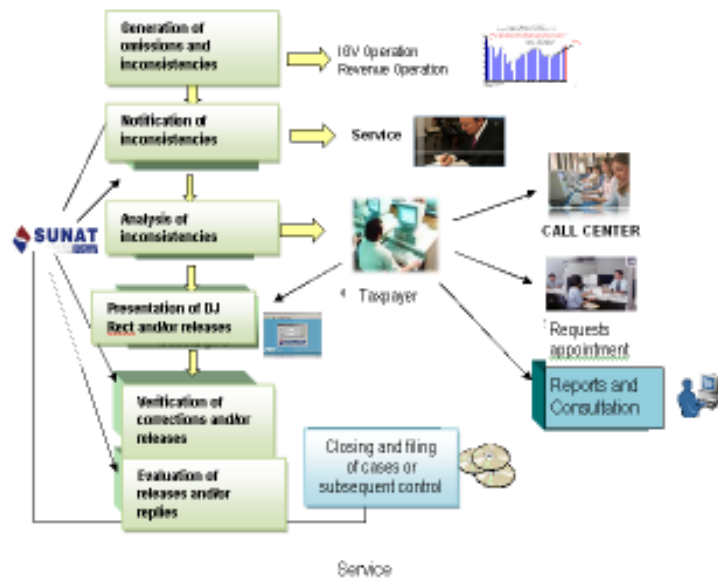
- III. **Data Quality Control Module**. This tool will control the level of data quality and will indicate if it is within the allowed range.
- IV. **Data Quality Control Needs Registration Module**. This module of early warning will provide a communication channel that will allow users to immediately notify problems detected in the data.

New Data Quality Control Interaction Process between the Modules Proposed



4. Virtual Control Center

As has been stated above, one of the mass control strategies of duties related to filing and payment is the one that refers to returns' inconsistencies. Since the mid nineties the Peruvian tax administrator, based on information submitted in taxpayers returns and that provided by third parties, performs mass information cross checks in order to detect inconsistencies in the returns and control them through a strategy of taxpayers segmentation with various types of actions such as notifications, subpoenas, verifications, and audits.



One of the problems of mass implementation of these types of actions is the administration responsiveness to disclaimers filed by taxpayers, which limits the scope and coverage of mass control programs.

The growing need to increase exposure generation before noncompliance with more efficient channels of response resulted in once again resorting to information technologies to solve the coverage problem and to reduce taxpayers' compliance costs. Therefore a Virtual Control Center was conceived which consists of a personalized virtual environment in the SUNAT website: SUNAT Virtual, which allows the taxpayer to know in detail the inconsistencies appearing in his sworn statements detected by the Tax Administrator when crossing the information on his returns and to make the corresponding disclaimers, without the need to visit the Administrator's office in person.

Through this web solution, the taxpayer can accept the differences and submit the corresponding corrections, and can even submit them and pay them at the same time within the same internet application. On the contrary he may not accept the inconsistencies and submit the electronic support for the differences detected (Word, Excel, PDF, zip formats).

The main objective is expansion of attention coverage through the virtual channel, also supported by the telephone line, which reduces attention and opportunity costs, both to the Tax Administrator and to taxpayers, resulting in improved tax compliance. As secondary objectives are the increase of taxpayers feeling of exposure (more actions in time) and awareness raising regarding compliance of tax duties.

This process implemented by SUNAT in 2008, grants multiple benefits both to the Tax Administrator and the taxpayer.

Benefits

For the Tax Administrator

- Allows mass control of a larger number of taxpayers, raising the feeling of exposure and in turn improving compliance of tax duties.
- Transparency, the taxpayer is shown the results of the computer cross checking clearly stating the inconsistencies detected and its causes.
- Reduction of costs, both for the Tax Administrator as well as the taxpayer (attention, wait, trip, paperwork costs, etc.).
- It allows online evaluation of the campaign's advancement, which results in timely decisions.
- The Administration focuses its resources in activities that generate greater value for the institution.

For the Taxpayers

- They can count on a channel opened 24 hours a day 365 days a year.
- Savings in costs and time, since they do not have to travel to an Administrator's office to receive or reject inconsistencies.
- It allows coordination of personalized appointments at any taxpayer control center on the days and hours best suited to the taxpayer.
- Closing of induction actions executed through an automatic process which verifies inconsistencies imputation and submits to a second phase the cases not imputed or supported.
- Reduces the possibility of initiating a formal audit process with the costs it involves for the Tax Administrator and the taxpayer.
- The taxpayer can review the inconsistencies detected through the SUNAT website from the comfort of his home or office in a safe, fast, and easily accessible environment.
- The virtual control center provides help to guide the taxpayer in the regularization of his inconsistencies, as well as provide telephone support which through the consultation center assists taxpayers with their inconsistencies or omissions detected.
- Supporting documents may be attached to confirm or disqualify the inconsistency or omission detected.

Virtual Control Center Features

The solution is oriented towards virtualization of tax services and procedures with the objective of expanding mass control coverage and to facilitate tax compliance, generating operation savings for the institution which can also concentrate resources in tasks of higher aggregate value.

The main features of the Virtual Control Center are:

- a) The taxpayer does not have to visit the SUNAT offices in order to make his return, it can be done through SUNAT Virtual, attaching electronic support if so wished, which implies the freeing of human resources to perform other tasks of greater aggregate value and the consequent elimination of paperwork.
- b) Once notified the taxpayer may: consult inconsistencies, see the details of the information that support the problems, reply, request an appointment, use the telephone line as complement to the consultations that may arise (SUNAT's Consultation Central has an option that allows consultation of the details of the problem for timely guidance to the taxpayer) and follow up on the status of induction actions.
- c) From a technological point of view, this solution is in a safe environment "SUNAT Online Operations" whose access is provided with a password - CLAVE SOL, which the taxpayer can obtain free of charge at any Taxpayer Service Center. Information is structured in personalized consultations, allowing the taxpayer to navigate in order to ascertain where the problem is and take actions to solve it.
- d) It is linked to the "PDT Return and Payment" option which facilitates compliance of the statement of omissions or differences detected.
- e) Mass control automation, since it has an automatic verification process (batch) which verifies actions taken and updates results obtained.
- f) The solution may be used in other tax environments such as charge management.
- g) Facilitates the work of the operating areas, automating processes which allows performance of other activities of greater aggregate value, as can be seen in the chart below:

Activity	Benefit
Attention to taxpayer consultation	Is minimized by making information concerning the details of the inconsistency and the mechanisms to correct it available to the taxpayer
Appointments	Are minimized since they are granted upon taxpayer requests or taxpayers are requested to appear whose support documents are not sufficiently clear
Disclaimer Verification	Is made by the automated processes which verify inconsistencies imputation.

5. Conclusions

- The first fact to take into account to achieve effective control of duties is the timely delivery of returns by banking institutions. In this regard, even though SUNAT has made significant advances related to virtualization of tax returns, in order to potentiate mass control of returns, these advances may be complemented with schemes that allow that all returns and payments made, even at banks' tellers, are made online with the tax administrator. This results in benefit to the taxpayer, since this provides timely feedback concerning errors in the tax return, and in turn allows the Tax Administrator to rely on a mass control mechanism, by taking advantage of the online interaction with the taxpayer to send personalized messages related to his/her tax duties.
- Quality of information is a determining factor for an efficient mass control process. In this regard, SUNAT has developed tax return data quality control processes whose information is essential to a mass control process, as is the case of the Annual Tax Return of operations with third parties (DAOT) and the Withholding Agents Return (DAR).
- A new approach is proposed for SUNAT's Data Quality Control, whose objective is to ensure data quality emphasizing aspects related to timely detection of errors, as well as the validation, remedy, prevention, and control of data inconsistency management. This new approach proposes the implementation of permanent Data Quality Control Programs, creation of a specialized unit responsible for the management and development of a computer platform to allow follow-up and control of management programs, as well as the development of quality control and early warning modules.
- One of the problems of implementing mass control actions is responsiveness on the part of the administration to disclaimers submitted by taxpayers for the requirements received, which limits the scope and coverage of control programs. This limitation may be overcome through the use of a Virtual Control Center to automate consultations and disclaimers of inconsistencies from the taxpayers, allowing the tax administrator greater efficiency in the use of resources while potentiating control coverage of taxpayers who do not fulfill their tax return and payment duties in a timely and correct manner.

ANNEXES

ANEX NO. 1 - Induction Letter Sample

Subject: Filing of Annual Tax Return 2007

Dear Taxpayer:

In accordance with the income you have declared for the year 2007 and that notified by third parties, we have detected that you have not filed the Sworn Annual Tax Return for Natural Persons for the period 2007. In order to prepare this please use PDT 659 - Annual Income 2007 - Natural Persons. We suggest you use your personalized file which contains information on your income declared for 2007. The personalized file is available at SUNAT Online Operations, option: 2007 Income.

In order for you to view the details of the information that has allowed us to detect this omission, we have made available to you through the SUNAT Online Operations (SOL) a Virtual Control Center, option "Consultation and differences or omissions support". If you feel that you are not obligated to file the above-mentioned tax return, through this same option you may submit the supporting documents to the Tax Administrator.

Should you have any questions regarding the above, please contact our Consultation Center (081-12-100) option 2, from Monday through Friday from 8:00 a.m. to 6:00 p.m. and Saturdays from 8:00 a.m. to 2:00 p.m. or visit our Taxpayer Service Centers.

Case study

Topic 1.3

TAXPAYER SERVICE ENHANCEMENT

Néstor Díaz Saavedra

Director General

National Directorate of Taxes and Customs
(Colombia)

SUMMARY: Introduction.- 1. Modernization of DIAN.- 2. Our management model.- 3. Achievements and results in service enhancement.- 3.1. Customer service management area.- 3.2 Service channels.- 3.2.1 Virtual service channel.- 3.2.2 Call center.- 3.2.3 Presence channel.- 3.3 Automated and simplified processes, services and procedures.- 3.4 Publication of diligences.- 3.5 Training, formation and learning of incumbent officers.- 3.6 Education, formative and update actions targeted at customers and the public at large.- 3.7 Tax culture.- 4. Customer service's characteristics.- 5. Service measurements.- 6. Service recognitions

INTRODUCTION

Any tax administration that is sufficiently clear about the challenges it must face, understands that the dynamics underlying the fiscal activity must focus on an adequate management of the service and control relationship with taxpayers. With this aim, the Office of National Taxes and Customs of Colombia has adopted as organizational management strategy the automated Single Revenue, Service and Control Model, MUISCA (in the Spanish acronym), the implementation of which has strengthened its organizational and mission collection and control capacities, impacting positively on assistance and communication relationships with taxpayers, reinforcing management agility and transparency, all supported by the use of information technology.

Taxpayer assistance services express a modernizing culture, since they not only provide access facilities and an approach to the tax administration, but they also allow us to approach our "clients", to strengthen control and to increase the voluntary compliance with tax, customs and exchange rate obligations.

The electronic information services provided by the entity offer diverse alternatives for taxpayers and citizens at large to be informed, updated and to conduct operations relative to taxes, customs and exchange rates, ranging from a specialized and multilevel call-center, to coverage of over 50% of the municipalities. These include customized assistance in our "ConTacto" centers, as well as "electronic services" in our Internet portal.

1. MODERNIZATION OF DIAN

The new way of managing taxes and customs in Colombia is part of the modernization policy adopted by the Colombian State, which is aimed at achieving better effectiveness levels in the Administration through the incorporation of new technologies into processes that facilitate the voluntary compliance of taxpayers' obligations; and the provision of services that simplify tasks and reduce costs.

The DIAN is committed to providing facilitation and control services to the economic agents for compliance with the rules of the tax, customs and exchange rate system, in conformity with the constitutional principles of the administrative function and with a view to collecting the right amount of taxes, speeding up foreign-trade operations, facilitating the conditions for loyal competition, providing reliable and timely information and contributing to the social and economic welfare of Colombians.

In furtherance of such purposes, clear and accurate guidelines have been outlined, which will allow the entity to address future problems. Strategic routes and actions have been defined; in particular, the entity's mission, vision and strategic map have been redefined so that they match information technology changes.

So, the following objectives are pursued in starting up the electronic information services:

To Achieve Excellence in Operations

With the aim of maximizing tax collection in accordance with certain regulations, the challenge faced by the DIAN is one of the largest in State management.

This challenge must be assumed intelligently, processing as much information as possible so as to allow the entity to identify all taxpayers and their status within the public treasury.

To comply with that, taxpayers have at their disposal good guidance, easy and transparent transactions allowing them to fulfill their obligations. The DIAN must strengthen tax, customs and exchange rate control in order to guarantee the performance of such obligations.

In providing a quality and efficient service, the entity contributes largely to the country's economic development; its clients must perceive that the Administration's activities are inspired by the principles of equity and justice.

To Redirect the Entity Towards Service

The tax Administration must keep up with modern citizen's situation, which demands more and better products and services "at lower prices". Not addressing this demand is against the ultimate end: tax collection.

On redirecting its activities towards services, the entity facilitates compliance with obligations by taxpayers and customs users while strengthening its controlling and examination capacity, so that all actions undertaken by it, technological programs and innovations may reflect this. Therefore, it has undertaken an integral strategy, providing services that make things easy for those in compliance and getting hold of the right tools to reduce tax evasion, smuggling and exchange rate infringements significantly.

The DIAN has reoriented the organization, its processes and its people towards services; it optimized customs control operations, managed the tax collection network and speeded up and flexibilized the logistics processes that support the entity's management.

To Consolidate Legitimacy and Autonomy

The way tax payment is carried out is key to determine taxpayers' immediate and future behavior with respect to tax, customs and exchange rate obligations, as well as their social responsibility as to the State. Over eighty percent (80%) of the revenues collected by the DIAN originate in voluntary (or induced) compliance.

The DIAN must set an example of good management and transparency to the citizens, not only as to the management of its resources and its administration at large, but also as to provided services, facilitated transactions and a fair and impartial application of the law.

The institutional image is strengthened so that the citizens and the State may grow each time more confident in it, thus generating a favorable concept in the public opinion. This is the reason that procedures are made public and there is an intention to provide ongoing training to officers, taxpayers and system users to allow them an adequate and intelligent use of information and communication technologies.

We believe that the application of new services and new technologies has been critical to simplify tax compliance and has increased the effectiveness and efficiency of examination areas, resulting in a more transparent action of the Administration, delivering information rapidly to users and taxpayers and state entities requiring it.

To Contribute to the Country's Competitiveness

Undoubtedly, the Tax and Customs Administration has a strong impact on the country's competitiveness. The way it guarantees facilitation, services, compliance and the consistency of the rules associated with the tax, customs and exchange rate system is critical for investment (national or foreign) expectations, foreign trade operation competitiveness and the reduction in the time and costs related to the fulfillment of obligations.

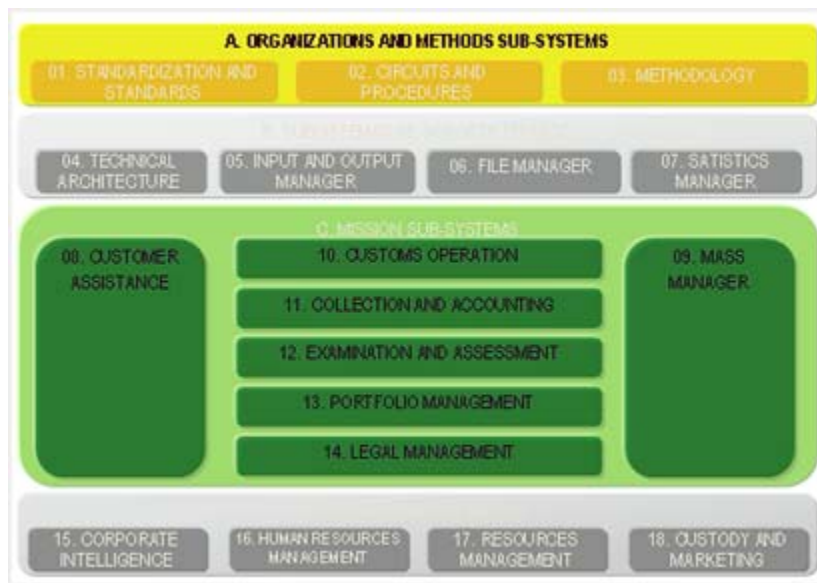
Therefore, the balance between facilitation and control and legal security is a priority for the DIAN; which, combined with the pursuit of a simplification in the legislation and a proactive planning of legislative changes, collaborate with our country's competitive development.

2. OUR MANAGEMENT MODEL

MUISCA is more than an IT project; it is a model of integral and integrated revenue and resource management that forces the speeding up and simplification of procedures, and its implementation assumes an organizational and process reengineering that inure to the benefit of the administration in many aspects affecting fraud detection and reduction, and the modernization and rationalization of administrative procedures.

The implementation of MUISCA has been key to the progress made by the DIAN in customer service, the creation of the assistance management area at a national and section level, the commissioning of electronic information services intended to facilitate the fulfillment of tax return and reporting obligations and to simplify diligences, improve the institutional image, develop an infrastructure master plan and improve the information and communication system infrastructure; all aspects developed within the frame of the management model.

Within the MUISCA processes that assure the achievement of expected results stand out Customer Service, which implemented, under the quality management policy, the Code of Good Governance, providing clear guidelines as to the entity's service policies.



3. ACHIEVEMENTS AND RESULTS IN SERVICE ENHANCEMENT

3.1 Customer Service Management Area

The Sub Office of Customer Service Management of the DIAN was created through the Executive Order 4756 of 2005, an agency that is maintained in the entity's new structure established through the Executive Order 4048 of 2008 as an area in charge of consolidating DIAN's service policies, transforming the internal culture into a customer service culture, facilitating direct and personalized assistance, offering ongoing and reliable telephone assistance and unifying service points and promoting the use of Internet for simple diligences.

3.2 Service Channels

3.2.1 Virtual Service Channel

The web site: www.dian.gov.co, establishes a communication channel between the DIAN and clients, providing updated information and tools to facilitate compliance with tax obligations in an agile, reliable, timely and safe manner.

At DIAN's portal you may find information on the entity, technical and general regulations and agreements, figures, management aspects; statistics, management and control, accountability, control entities, budget; electronic information services, diligences, publications, forms, hiring; sales and auctions.

We can carry out registration diligences in the Single Taxpayer Registry; online lodgment of tax returns, tax, customs and exchange rate reporting via files; inconsistency correction services; financial obligation inquiries; electronic payment of obligations; process for the exit of goods; process for import cargo; customs tariffs; documentary management; unloading of aid tools; help program for income reporting from natural persons and data pre-validators; training in electronic information services: manuals, videos, general information, e-courses.

We also provide links to other State portals and identify our mailboxes for legal inquiries dian@dian.gov.co and customer service issues asistencia@dian.gov.co. By writing there, customers and officers are assisted with the use of electronic information services. This web site is designed to communicate problems or concerns, and thus avoid diligences and transfers, and facilitate the interaction with the entity.

Also incorporated into the web page are the Complaint Mailbox: quejas@dian.gov.co, and the Office of the Public Defender of Taxpayers and Customs Users: defensoria@dian.gov.co

DIAN's chat services are intended to provide the necessary information and to assist and guide customers with performing tax obligations.

3.2.2 Call-Center

With the aim of training skillful officers and providing adequate service to taxpayers and users, our Call Center offers assistance and guidance on tax, customs and exchange rate matters, as well as ongoing assistance in the use of electronic information services, reception of complaints and claims.

The Call Center hired by the DIAN is made up of fifty five (55) first-level agents and eight (8) second-level agents who are officers at the DIAN.

Also, the Sub Office of Customer Service Management has ongoing internal assistance lines that support the work in the diverse branches.

Results in figures:

CALL CENTER	2007	2008
Incoming calls answered	406,126	400,539
Outgoing calls	64,089	88,189
Assisted customers	470,215	488,728

3.2.3 Presence Channel

Our 59 Puntos de ConTacto (Contact Points) are such places and physical spaces allocated to provide personalized assistance and information, guidance services and assistance in connection with the tax obligations of clients and citizens at large, which are located inside and outside the Section Offices of National Taxes and Customs.

The services related to RUT (Single Taxpayer Registry), billing request, issue of the digital mechanism, (external) reporting via files and billing, lodgment of accounting books, rebates, financial obligation inquiries, notices, legal guidance, collection, examination, foreign trade, etc., are provided at such Points.

Also, with a view to decentralizing guidance and service functions, the entity has signed inter-institutional agreements with the Chambers of Commerce or territorial bodies, whereby different regions from those of DIAN's office branches are reached, with officials apt to provide assistance with RUT registration services, special requests, billing, accounting books, etc.

Our Punto de ConTacto Móvil (Mobile Contact Point) allows the management and assistance areas to settle temporarily in strategic sites and events to provide clients with RUT registration and update services, billing, special requests, guidance and assistance.

Self-managed points (kiosks): Are assistance sites located within Puntos de ConTacto. These Self-managed Kiosks are equipped with the necessary

physical and technological infrastructure so that users may self-manage the information they will send to the DIAN, such as tax, customs and exchange rate returns, transfer prices, etc.

This self-management task is oriented, supervised and supported permanently by customer service advisors and highly qualified officers.

3.3 Automated and Simplified Processes, Services and Procedures

DIAN has implemented electronic information services for the execution, facilitation and simplification of the following diligences, processes and procedures:

Single Taxpayer Registration (RUT)

As part of the development of the facilitation policy adopted by the DIAN, the new Single Taxpayer Registration - RUT - has been implemented and started out as a basic instrument to locate, identify and classify taxpayers and users. It comprises four registries: the taxpayers' registry carried by the entity, the national registry of sellers, the national registry of exporters of goods and services and the registry of customs users authorized by DIAN.

From 2004, the DIAN moved from a database containing such client information as name or corporate name, NIT, address, legal representative, indication of whether he/she is responsible for income or sales tax; to a tool that constitutes the only mechanism to identify, locate and classify both individuals and taxable or exempt corporates, persons subject - and not subject - to lodging tax returns, taxpayers under the ordinary or simplified system, withholding agents, importers, exporters and other customs users and taxable persons managed by the entity.

The registration and update of the RUT is carried out through this cost-free service, and special update requests are addressed.

Diligence and online lodgment of tax returns

This service has been implemented for the following forms:

NUMBER	NAME
110	Income tax and supplementary return or income and property tax return for corporates and similar corporations, individuals and similarly treated individuals, individuals and similarly treated individuals obliged to carry accounting books
210	Income tax and supplementary return for individuals and similarly treated individuals not obliged to carry accounting books
300	Bimonthly sales tax return (VAT)
350	Monthly declaration of withholding at source
420	Property tax return and payment
490	National tax payment official receipt
690	Customs tax payment official receipt
520	Tax return upon termination of Import - Export special systems
540	Consolidated Payment return (For Post Office Traffic and Urgent Shipment intermediaries)
600	Export declaration
120	Transfer price individual information return
130	Transfer price consolidated information return

The online document lodgment service allows taxpayers to fulfill the legal duty to declare online from the DIAN's portal in an agile, easy and safe manner, using the digitally certified signature mechanism and fully completing the form diligence, signing it digitally and submitting it electronically to the DIAN.

This service eliminates the presentation of tax returns at banks and financial entities. Reliability and truthfulness of information are guaranteed. It facilitates the fulfillment of tax, customs and exchange rate obligations through the electronic system.

Reporting Via Files

Service developed and implemented to submit mass information by means of files.

The DIAN receives information on conducted business operations and transactions, information on operations conducted by international traders and import-export special system users, documents for the diligence of exports and the cargo entering the country from financial sector entities,

chambers of commerce, stock exchanges, stock brokers, the National Registry of Civil Status, notary publics, typesetters, economic and enterprise groups, corporates and other entities obliged to withhold at source, entities celebrating cooperation agreements, authorized exchange market brokers and post office financial service concessionaires, holders of compensation current accounts and authorized professionals of cash and traveler's checks trading.

The reporting via files service allows user to present the information electronically to the DIAN in XML files that can be generated from the company's internal systems or the use of tools that are available cost-free in DIAN's portal.

This procedure assures that the information reported to the entity is 100% processable and useful for taxpayer and customs user control and follow-up processes regarding omission, evasion and other tax fraud modalities.

Digitally Certified Signature Mechanism

The digitally certified signature mechanism used by clients who opt for the electronic information services guarantees authenticity: that is, there is no doubt about the message issuer's identity; integrity: that is, the message is not altered between the time of dispatch and the reception; no objection to the information, which means that whoever receives or sends a message signed digitally and supported by a digital certificate cannot deny the content of such message.

With the use of this mechanism both the users and the DIAN gain security and reliability.

The DIAN obtained the recognition as a Privately-held Certification Entity by the Superintendency of Industry and Commerce through the Resolution 36119 of December 30 of 2005. This allows mass spread of this security instrument for the benefit of DIAN's management processes, ruling out intermediaries.

Process for Correcting Inconsistencies

A process that allows the timely identification and correction of inconsistencies in the information submitted to the DIAN in tax returns, customs declarations and official payment receipts, as a basic principle of the management model MUISCA for the purposes of guaranteeing source information for accounting, financial obligation, examination and decision-making processes.

The mass correction of inconsistencies detected in tax returns and receipts of payment of obligations and services managed by the DIAN is primarily intended to: firstly, facilitate the diligence inherent in correcting inconsistencies tied to any one of the documents specified here; and secondly, have quality information that facilitates control and determination of the taxes administered by and the services rendered by the DIAN.

With the purpose of turning this process more operational, the service allows taxpayers to examine the documents containing inconsistencies through the corporate portal, only by including their NIT number. They are also invited via e-mail or telephone to approach the Contact Points to perform the corrections detected through the system.

Process for The Exit of Goods

A process for carrying out the procedures demanded by the customs regulations, as required for the exit of goods from the national territory with destination to another country or free trade zone. Although this process was automated, a 100%-service coverage was achieved at the level of operations and territoriality. Additionally, new tolls were offered which allow system-to-system electronic transmission and help reduce times and costs in foreign trade operations.

The web service implemented together with the Foreign Trade Ministry for the export process, the information on ratifications and authorizations obtained through the Single Foreign Trade Counter is validated.

Characteristics such as traceability, agility, interoperability, internationalization, facilitation, greater coverage of diligences and operations, information quality are inherent in this process. This service was implemented in September of 2008 and nearly 1,000,000 operations have been reported to date.

Process for Import Cargo

Carry out procedures required by customs' regulations to introduce merchandise into the national customs' territory. This process underwent significant changes that guarantee the compliance with international standards on import cargo, intended to strike a balance between the facilitation and control required by this type of foreign trade operations. It will be implemented from May 1 of 2009.

Characteristics such as traceability, agility, internationalization, facilitation, greater coverage of diligences and operations and information quality are inherent in this process.

Payment Through Electronic Channels

The electronic payment was implemented for payment of customs and exchange rate tax obligations through the entities authorized for collection. Collecting entities will put this form of payment at the disposal of the public as from the February 2009.

Process Management

All customers may follow up through the DIAN portal the activities carried out using the electronic information services such as inquiring procedure status, verifying users or persons who participated, reviewing execution times of tasks, inquiring about generated documents for transactions and guiding users on pending tasks.

This adds transparency to the operation and minimizes the risks of discretionary behavior of users and officers.

Tariff Administration

The web page provides foreign trade users and citizens at large with a cost-free service for inquiring Customs Tariffs, a one-stop point where they can find all the information associated with assessments, requirements, international agreements, supporting documents, ratifications and in general all the information required to import or export goods, based on a tariff sub-item.

Financial Obligation

This tool provides online balances of tax, customs, exchange rates, administrative and judicial obligations of taxpayers and customs users. This service allows user to follow up at any time the status of their obligations and their evolution.

This service guarantees that the financial obligation is duly documented at all times, including an integral identification of taxpayers' financial obligations (tax, customs and exchange rate obligations), and allows inquiring about financial obligations, the historical identification of generated balances, their determination and the liquidation of interest for past due obligations.

Results and figures

CONCEPT	2006	2007	2008
Tax returns lodged online	260,161	1,070,298	1,271,035
Requests - Submittal of Mass Information via files	444,380	536,822	546,468
Records of Submittal of Mass Information via files	135,308,765	109,406,857	100,758,872
Inquiries about 2008's Customs Tariff			52,713
RUT			
Registrations	1,212,654	1,131,109	1,290,195
Updates	586,233	549,706	669,323
Special requests		46,103	33,399
DIGITAL MECHANISM			
Issues	47,523	37,377	14,459
Renewals		3,610	2,741
SERVICE			
Customers assisted personally	1,984,083	2,527,144	3,242,555
QRSP received an lodged and Congratulations	12,020	2,030	6,967
Congratulations		8,176	972

3.4 Publication of Diligences

Through its technological platform, printing, electronic, telephone means or mail, the DIAN puts the simplification of its diligences and procedures at the disposal of clients and citizens at large.

This spreading strategy is leveraged by telling clients the location of their offices, the filing of claims or complaints, working hours, regulations, functions and other indications necessary to comply with their obligations or to exercise their rights.

3.5 Training, Formation and Learning of Incumbent Officers

These processes imply the development of actions for the awareness and preparation of all public officers at the DIAN regarding the institutionalization of the service policy and attributes, the ratification of the practice of an adequate communication and the institution values that allow officers to develop a service culture.

Supplementary, the technical skills of public officers in tax, customs and exchange rate matters is pursued, which may add dynamism to the institution in the performance of its mission.

To speed up the above explained process, the Institutional Service Network has been set up, composed of entity leaders who will act as agents for the performance of actions targeted at promoting the construction, reinforcement and improvement of a Service Culture at the DIAN. Hence, the spaces for interaction offered by the entity are taken advantage of for knowledge development, bonding, consolidation of a culture based on the exchange of knowledge and experiences, and ratification of the sense of belonging and collective commitment in service matters.

3.6 Education, Formative and Update Actions Targeted at Customers and the Public at Large

The DIAN performs information, persuasion and reminder campaigns on a permanent basis, as well as update symposiums on tax, customs and exchange rate matters intended to guide and communicate to the clients and the public at large the current and new provisions related to its competence. Also, online-testing environments are scheduled intended to develop skills in the use of electronic information services.

3.7 Tax Culture

Within the frame of the reinforcement of a tax culture, the DIAN works on diverse fronts identified upon a diagnosis of the needs and variables on which the tax culture work should focus.

Internal actions: Internal campaign on values; issue of the Code of Good Governance; ethical guidelines, social responsibility policies, policies for suppliers and contractors, service policies.

External actions: Communications strategy: radio, TV and street advertising. Institutional presence in shopping malls, fairs and events; Christmas campaign; ConTacto Móvil points in strategic sectors (San Andresito; Centro de Alta Tecnología).

4. CUSTOMER SERVICE'S CHARACTERISTICS

At the DIAN, customer service is defined as the "set of everyday actions intended to satisfy clients' needs and facilitate the fulfillment of their obligations, guaranteeing their rights".

Hence, this service definition is aimed at achieving, maintaining and responding to citizens' trust based upon a transparent behavior subject to the control established by the public entities.

The rendering of this service requires coherence among strategic planning, organizational structure, processes, technology, the people, the culture and organizational learning. All with a view to allowing service effectiveness and positioning the entity as a leader in management modernization in the world context under the conditions of globalization and internationalization of the economy.

To achieve such aims, the entity focuses on the development of a tax culture, adopting education, guiding, information actions and assistance targeted at society, taxpayers, beneficiaries and users in order to facilitate compliance with their tax obligations.

In this way, the service provided by the entity involves information and communication processes that allow knowing the needs and expectations of the entity's internal and external clients and bringing the Tax and Customs Administration closer to the citizens.

In order to develop, the entity needs to frame development within quality standards. This requires that the entity should identify its commitment to clients and users and know their needs in order to do everything within reach to meet them. In this way, both the service provider and the service recipient are rewarded.

The entity works on the implementation and modernization of service channels to make them effective, convenient and secure for clients. To this end, it permanently measure and assess its impact on client satisfaction, the institutional management and the improvement in the entity's image. It must set follow-up, evaluation and control procedures.

Below are DIAN's customer service's attributes.

Kind treatment: Willingness to treat clients respectfully, fairly, without criticism or judgments, considering specially their human condition.

Modern: The service is provided in convenient, comfortable and safe premises fitted with modern equipment, state-of-the art technology, good presence staff, attractive, didactical and plain-language material.

Personalized: Each client is unique, so they are assisted during convenient work hours and informed on all the conditions that allow them to know how, when, where and why they must fulfill their obligations.

Reliable: Capacity to guarantee client the uniformity of criteria in the guidance, assistance and information delivered, showing interest in solving client's problems. The service is provided within the stipulated time.

Safe: It guarantees confidentiality, an adequate management and safeguarding of the information received from client, facilitates hassle-free access and management thereof for the performance of client's tax obligations.

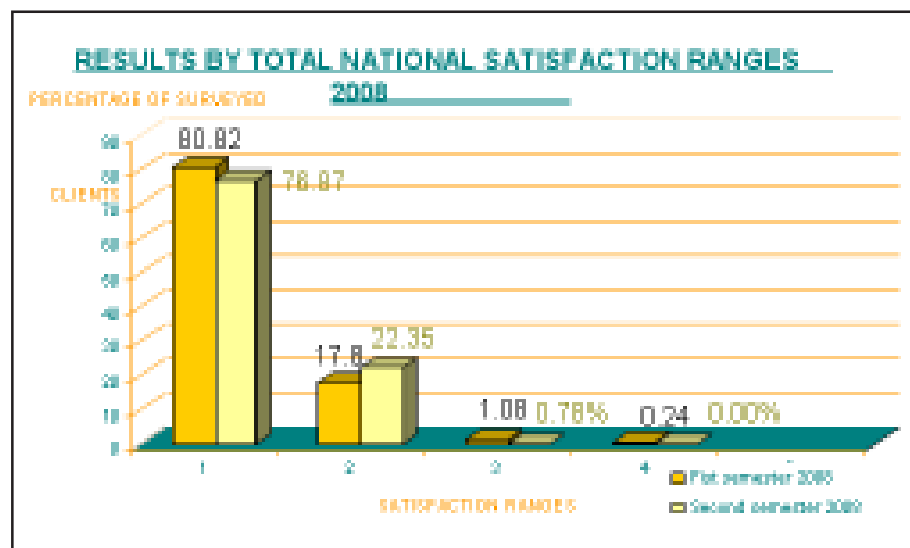
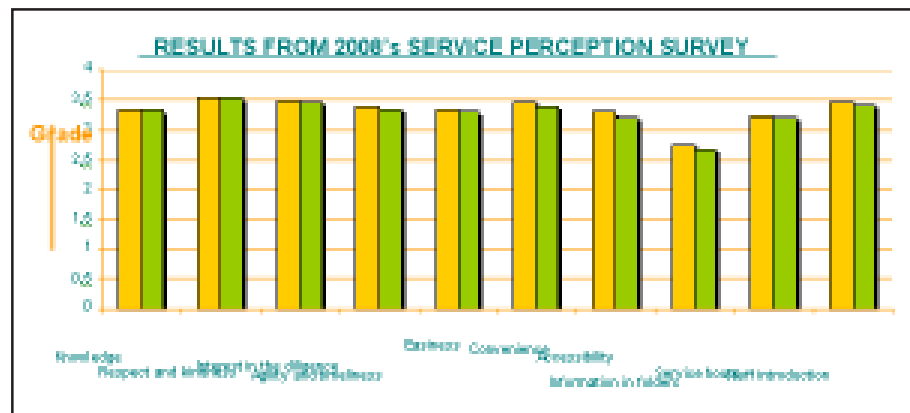
Effective: It renders a quality, precise, timely and truthful service that meets client's needs and expectations using the entity's resources in a timely fashion.

5. SERVICE MEASUREMENTS

Service at DIAN is subject to permanent evaluation by clients and users. This implies the obligation of the entity to define and apply the necessary mechanisms to allow knowing the client's opinion of the attributes of the provided service.

The results deriving from the measurement activities will indicate whether it is necessary to conduct corrective and control actions, implementations, changes, eliminations, among others, with a view to consolidating and maintaining both client's satisfaction levels and the entity's officers' willingness to provide service.

During 2008, the first two service perception surveys were conducted. The specific objectives of this measurement were to assess clients' perception of each of the attributes or characteristics of the rendered service and to establish a number of satisfied clients after they approached DIAN's premises to request a service.

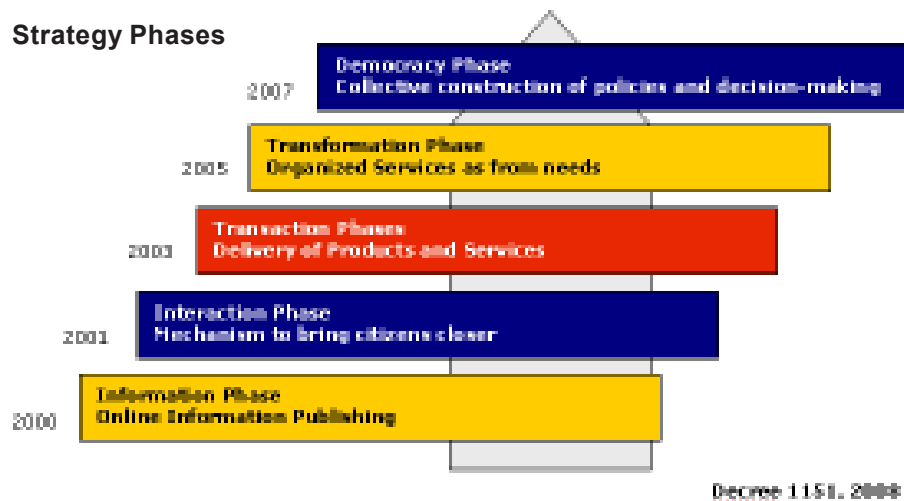


6. SERVICE RECOGNITIONS

National leadership of the policy called "Gobierno en Línea" carried out by the National Government.

Within the frame of the implementation strategy of Gobierno en Línea, the DIAN has been undergoing a transformation phase since 2007, becoming one of the nation's leading entities.

Strategy Phases



The Administrative Department of Public Functions and the Ministry of Communications have mentioned the DIAN as an entity providing sector services of Gobierno en Línea and taking advantage of its technological platform in the inter-operability with other platforms on a government level, as is the case of the Single Foreign Trade Counter and the Asset Laundering Unit.

Case study

Topic 1.3

THE PROMOTION OF TAXPAYER SERVICES

Ricardo Escobar Calderón

Director

Internal Revenue Service

(Chile)

SUMMARY: Executive summary.- 1. Introduction.- 2. SII's new strategic approach.- 3. Projects to enhance taxpayer services provided by SII.- 3.1 Civic-tax education.- 3.2 Tax portal MIPYME.- 3.3 Assistance platform in offices -3.4 Virtual office www.sii.cl and creation of "MI SII" .- 4. Final comments.

EXECUTIVE SUMMARY

Through this document, the Chilean Internal Tax Service (SII, in Spanish) explains how it has put into practice the new strategic point of view that will allow it to better approach taxpayers with the purpose of facilitating tax fulfillment and, consequently, reducing tax evasion.

The field of taxpayer services has been defined as one of the key aspects to achieve improved voluntary tax fulfillment of citizens and economic agents at large and thus generate a better acceptance of taxes.

Training and education actions can be carried out early in a taxpayer's life that will impact positively on tax fulfillment control in the long term. On the other hand, rendered services tied to taxpayer's tax-commercial operation will allow facilitating tax fulfillment and generating awareness on economic agent information in the hands of the Tax Administration with relation to market transactions, which in turn will disseminate the feeling of task risk in evading tax obligations.

Among the projects concerning the foregoing stand out:

- The Civic-Tax Education Portal SIleduca and children's website PlanetaSII, which are very relevant tools within the education project conducted by SII, intended to build awareness on the importance of taxes as a social good among future taxpayers.
- The Tax Portal MIPYME (www.portalmipyme.cl), which delivers timely information, assistance and services through the Internet to small and medium-sized taxpayers, e.g.: the Electronic Billing System and the Simplified Accountability System.
- The Assistance Platform in offices: a new quality assistance model that allows providing an identity to taxpayer, facilitating diligences for tax fulfillment, delivering assistance and training through self-assistance tools available on the Internet.
- The Virtual Office www.sii.cl and the creation of "Mi SII", an initiative that draws on the successful development of Internet services, in agreement with the assistance model that allows taxpayer to interact on a differentiated and personalized basis with SII.

These and other projects being developed by the Internal Tax Service contribute in all to address the needs of current taxpayers and to reinforce their commitment with society to remaining as a modern, efficient and effective institution.

1. INTRODUCTION

The social and technological environment is leading changes to occur faster than in previous years; therefore, there is a need to enhance the ability to respond to the requirements of the environment with the celerity demanded by the circumstances surrounding the Tax Administration.

Public as well as private organizations must adapt to this changing scenario and undergo adjustment processes in order to function efficiently and effectively. The Internal Tax Service (SII), like other tax administrations in the world, is immersed into this constant need of readjustment in order to fulfill its objectives successfully.

The way things have been performed so far must be reoriented, because the country, the people and the business sector have changed; everything has grown more sophisticated, complex, interconnected and full of particularities, and taxpayers have special demands and needs. There are also new areas of risk that want detection and must be addressed timely in order to minimize tax evasion and crime. To provide a qualified response to an environment so

different from that of one or two decades ago, we must make organizational changes, do things with another approach and also change the way that the Service's officers interact with taxpayers.

2. SII's NEW STRATEGIC APPROACH

SII is launching a new strategic approach for management and user's satisfaction to address the challenges faced by the country resulting from the changes observed in taxpayers, i.e., the development of more sophisticated and global businesses, persons demanding higher assistance quality and new services, demands for the provision of personalized, specific and highly reliable information, new risks of tax evasion and crime and changes in the legal environment.

This new management style contemplates, among other objectives, to continue offering facilities for tax fulfillment and quality assistance both on-line and personally. In addition, the decision to implement this new approach requires a constant enhancement of the Service's ability to reduce tax evasion.

A system for providing timely, true, specialized and reliable information to taxpayers, public institutions and the Government is required, as well as providing continuity with highly specialized tax fulfillment services in line with the particularities and needs of each taxpayer segment, and even personalized services in the case of individuals.

The foregoing scenario demands focus to be placed, among many other things, on:

Education and timely information:

- Early education to future and current taxpayers
- Integral and timely information

Facilitation of tax fulfillment by enhancing taxpayer services:

- Improved assistance quality
- Reduction of tax fulfillment costs
- Increased use of e-government solutions
- Independent Tax Courts

3. PROJECTS TO ENHANCE TAXPAYER SERVICES PROVIDED BY SII

Within the SII's new strategic approach we could highlight the projects concerning education and facilitation of spontaneous tax fulfillment at offices and on-line, which implies enhancing and diversifying taxpayer services.

3.1 Civic-Tax Education

The SII has developed a Civic-Tax Education project with the cooperation of the Ministry of Education, which promotes the delivery of contents and information to citizens, specifically regarding tax issues.

This long-term project will allow covering a great part of future taxpayers, generating greater tax awareness among them in order to encourage voluntary fulfillment of tax obligations, in view that education is considered an effective means given its influence on the development of values, the development of attitudes and behavior, the transmission of knowledge and the promotion of desired behavior for improved individual and collective life quality.

Nowadays the project is targeted at elementary education students, children between 6 and 13 years old, disseminating civic values to nearly 2 million students. The aim is to contribute to their development through hands-on experience applicable to everyday life, and thus build communication bridges with the future new users of our services.

Within the education project stands out the on-line Portal SIleduca (www.siieduca.cl), targeted at teachers, and the children's website PlanetaSII (www.planetasii.cl), both aimed at promoting values, civic-tax education and learning the importance and the meaning of being a good citizen-taxpayer.

SIleduca is a portal of interest for teachers, whose contents support the elementary education syllabus and programs set forth by the Ministry of Education. The material therein is used by teachers to teach the required civic topics entertainingly and encourage students to use new information technologies through the website PlanetaSII.

PlanetaSII is a website dedicated specially to children between 6 and 13 years old, whose contents are presented through games, videos, contests and songs for children to learn while playing.

Both portals feature navigation spaces specially designed, in content and graphics, to satisfy the needs of information, materials and entertainment of each group of recipients.

Image of Portal Siieduca, www.siieduca.cl:



Image of children's website PlanetaSII, www.planetasii.cl:



3.2 Tax Portal MIPYME

With a view to delivering timely, assistance and service-related information and facilitate taxpayer fulfillment according to category and size, a Tax Portal has been designed on the Internet, targeted at Small and Medium-sized taxpayers, www.portalmipyme.cl, intended to: facilitate the use of information and communication technologies (ICT), develop managerial capacities in companies by enhancing their tax and accounting management, reduce the costs of tax fulfillment by articulating it with the development of businesses, and promoting greater inclusion of this type of companies in the "formal market".

Among its tools stands out the Electronic Billing System, specially conceived and designed for micro and small-sized companies having a low volume of tax document issue; and the Simplified Tax System, to which individuals and individual limited liability companies may enroll, allowing them to carry their accounting records smoothly and simply.

The **Electronic Billing System** allows issuing and receiving: invoices, tax-exempted invoices, credit notes, debit notes and bills of lading electronically, referred to generically as electronic tax documents (DTE, in the Spanish acronym). Issued and received electronic documents are directly recorded in accounting books and non-electronic tax documents are digitalized directly into the system. Besides, the system allows generating the electronic files required to assign Electronic Invoices intended to obtain financing rapidly, safely and economically.

The system is ultimately intended to provide companies with a basic function to operate with electronic tax documents, giving them a new opportunity to know, learn about and profit from the reduction of printing and storage costs, improved order of business management and efficiency gains resulting from the incorporation of information technologies into the production world, in this case through tax fulfillment.

The **Simplified Tax System** allows relieving the relevant taxpayers from having to perform certain tax obligations, e.g.: carry a full accountability, prepare balance sheets, applying monetary correction, depreciations and preparation of inventories; and provides the following facilities:

- Declaration and payment of the First Category Tax and the Supplementary Global Tax based on their accrued net annual income (revenues less expenses)
- Simplification of the calculation of Monthly Provisional Payments (fixed at 0.25% of monthly gross sales)
- Immediate deduction of expenses, investments and purchases
- Automatic generation of income and expense records required by the System, and immediate calculation of the taxable base for the First Category Tax, based therefrom
- Generation of a proposal for the Monthly VAT Return (Form 29) and for the Annual Income Tax Return (Form 22)
- Generation, in addition, of proposals for Salary (1887) and Fee (1879) Affidavits
- Creation of financial reports on the results obtained by the company for presentation to third parties; for example, to request financing

Finally, it should be pointed out that the use of one or both systems provides a greater term for delivery of the VAT return and payment of such tax, extending the term from the 12 to the 20 of each month.

Image of Tax Portal MIPYME, www.portalmipyme.cl:

The screenshot displays the Tax Portal MIPYME interface with the following sections:

- Módulo de Fomento**
 - CONOZCA MÁS SOBRE EL ÁMBITO TRIBUTARIO
 - Normas y Procedimientos Factura Mérito Ejecutivo
 - Suplemento Preguntas Frecuentes sobre Factura Mérito Ejecutivo
 - Descripción de los impuestos
 - Columnas de asistencia tributaria del SII en prensa
 - Presentaciones del director
 - Suplemento sobre Factura Electrónica
 - LINKS A ORGANISMOS DE INTERÉS PARA LAS MIPYMES
- Central list of services:
 - Timbraje de Documentos y Registros
 - Modificaciones y/o actualización de la Información
 - Declaraciones de Impuesto
 - Declaraciones de entrega de información de terceros (Declaraciones Juradas)
 - Peticiones, consultas y solicitudes
 - ¿Qué hacer en caso de pérdida de documentos y/o registros?
- Right sidebar:
 - Pescadores
 - Prestadores de Servicios
 - Profesionales
 - Transportistas
 - INFORMESE UD. MISMO:**
 - SISTEMA FACTURACIÓN ELECTRÓNICA PORTAL MIPYME
 - PREGUNTAS FRECUENTES
 - FORMULARIOS
 - DICCIONARIO BÁSICO TRIBUTARIO CONTABLE
 - CONTACTENOS**
- Map of Chile with text:
 - ¡Declare por Internet!**
 - Lugares de acceso público a internet en Chile
- TERMINO DE LA ACTIVIDAD DE UNA MIPYME**
 - Por iniciativa propia de la MIPYME
 - Por propuesta del SII
- Cartola Tributaria**

3.3 Assistance Platform in Offices

As regards personal assistance related to administrative diligences, the aim is to facilitate the diligence itself. The new assistance model, reinforced and provided by personnel trained in the new strategic approach, with improved abilities and supporting technical tools, allows profiting from the facilitation of diligences to small-sized taxpayers, the training of such taxpayers and, overall, of all taxpayers, in the use of tools that cut down the costs of transactions with the tax administration, and the facilitation of the voluntary fulfillment of their obligations.

This new structure is called Taxpayer Assistance Platform, whose objectives, structure and benefits for taxpayers and officers are explained below.

Objectives

- To provide a tax identity to the economic agent (taxpayer)
 - a. To assure the quality of the information provided by taxpayer
 - b. To categorize taxpayers and their obligations
- To assist taxpayer with the fulfillment of their tax obligations
 - a. To inform their obligations
 - b. To facilitate diligences with low-cost self-assistance tools and timely and transparent information
 - c. To provide the service of tax document authorization (stamping).

Structure

The Assistance Platform is composed of:

- a. An Information and Assistance Center
The officers in this area are in charge of receiving, informing and guiding the taxpayers arriving at SII's offices, promoting on-line self-assistance through the computers available for self-assistance purposes. They are the institution's visible face and the first contact of the arriving person with the Service.
- b. An assistance desk for General Diligences
It constitutes the first line of assistance, dealing with diligences related to RIAC (in the Spanish acronym [RUT and Origination Activities]), Business Termination Notice (TG, in the Spanish acronym), Document Stamping and Administrative Requests. In this area, taxpayers with no special situations can complete their mandatory administrative diligences expeditiously.
- c. A staff of examiners for Specific Diligence Assistance. This section deals with diligences deriving from the General Diligence Assistance Area. It is composed of examiners located outside the General Diligence Assistance area, who receive the diligences deriving from such desk. These officers are responsible for resolving more complex diligences requiring special attention and greater time for their resolution, and upon the following situations:
 - Orders being objected to or with interpretation problems
 - Annotations obstructing the diligence, detected directly by the system
 - Special requests not contemplated in the regulation
 - Unsatisfied taxpayers

Benefits

The Assistance Platform facilitates the performance of taxpayer's obligations by way of simple, expedite processes having controls adapted to each request. This allows reducing the current cost of having to undergo a diligence with controls throughout the process which are the same for all taxpayers, whether they exhibit good or bad tax behavior.

In this area, taxpayer's data are updated and quality information is provided to the areas responsible for examining taxpayer's behavior. The assistance and examination process is thus enhanced as a result of the specialization of the diverse areas.

It allows establishing assistance quality standards in order to improve taxpayer's satisfaction with the delivered service.

It gives the opportunity to provide better information and assistance to taxpayers and thus increase the number of users of self-assistance applications available on the Internet.

It makes sure that taxpayers are knowledgeable of their rights and obligations, and access rapidly and easily the information on their fiscal situation and have the necessary support to fulfill their obligations properly and timely. It collaborates actively with tax education by making people aware on the importance of taxes for the country's development.

3.4. Virtual Office www.sii.cl and Creation of "Mi SII"

The development of the Internet, within the frame of the SII's new strategic approach, keeps current with the update of services intended to facilitate taxpayer fulfillment. The innovation tied to this sector is aimed at offering adequate tools to each type of taxpayers, applying a segmentation of views as per user's profile and thus facilitating their use by inexperienced users while being very versatile to expert users. In this sense, the offer made to the average taxpayer is changed for one that provides everything that is available as a result of the modality of delivering tools adjusted to the logged-in user.

This allows achieving user's loyalty of on-line office, establishing a win-win relationship between taxpayer and the Tax Administration. The transaction costs for taxpayers are cut down; the 24x7 platform availability allows taxpayer to perform diligences freely and flexibly. The Tax Administration profits from the possibility of effectively exercising the mission of safeguarding the fulfillment of tax obligations, reflected in 98% of tax revenues voluntarily reported by taxpayers.

TOPIC 1.3 (Chile)

The redesign of the on-line Office is intended to provide services in accordance with an assistance model that allows taxpayers to interact in a transactional portal adjusted to their characteristics. This facilitates and promotes voluntary tax fulfillment.

The on-line office has over 4 million registered users; it is one of the three most visited webpages in the country. The frequency of visits of some users is tied to the income tax return, with these users showing a low level of knowledge and experience with the site; whereas the high percentage of traffic derives from expert users, among which stand out accountants.

Hence, the analysis of the designed product focused on knowing the users' opinion regarding the tool, segmenting them by individuals, small and micro companies, medium and large companies, accountants and officers at the SII itself; as well as on the institutional interests regarding the promotion of tools available on the Internet for each of these segments.

With a view to carrying out this project as soon as possible and delivering benefits to taxpayers, the main page will be redesigned and a personal and differentiated service will be in place for the segments of individuals and companies, so when a taxpayer enters their RUT and password a differentiated page is displayed containing personal information and the diligences then available to them on the SII's website according to their characteristics.

The ideal site would be a Virtual Regional Office covering the largest possible number of diligences performed at the physical Regional Offices, providing differentiated services to each segment of taxpayers: Individuals, Micro and Small Companies, Medium and Large Companies.

Redesign of the Virtual Office: www.sii.cl

The redesign of SII's virtual office and its flag product, the personal and customized service called "Mi SII", have been developed based on modern, user-friendly tools that facilitate both tax fulfillment and the execution of projects with a sophisticated standard of reliability and confidentiality. In addition, it fulfills the rules of technological usability and modernization set forth by the Chilean Government and the State.

The design proposal is intended to be more user-friendly, to facilitate use by inexperienced users, and to maintain the same functions an expert user would require.

The new design maintains the tools currently available, but changes the site's aesthetics for improved use.

The most important aspect is its simplicity, grouping the information at SII's website by sections, facilitating navigation of less expert taxpayers. Search is thus facilitated and the navigation routes of users operating with the SII's Virtual Office on a permanent basis are also faster. Besides, it uses the current menus that taxpayers know and use to submit their tax returns or make electronic payments, which are displayed on the upper horizontal margin for improved access and navigation.

Among the sections stand out tax news, taxpayer assistance information such as: Frequently Asked Questions, What can I do to...?, educational demos, in addition to step-by-step guides of SII's main diligences and products available to users.

Other important redesigns aim at providing easy access to the main thematic sites: Tax Portal Mipyme, Information Portal for Foreign Investors and Tax Education Portal. In each of them, the user is provided with information and services prepared by SII for specific types of taxpayers. Such is the case of the Tax Portal Mipyme, a technological tool that allows from initiating activities to issuing cost-free Electronic Invoices to this type of companies and enrolling in the Simplified Tax System; both bets intended for the growth of small and medium-sized entrepreneurs.

As for the "News" section, this concentrates the whole current information delivered by the institution to the community and the media, whereas the option "More Information" compiles data and information relevant for the calculation of tax operations and fulfillment, such as, for example, the effective legislation and regulation, the addresses of SII's offices in the country, other institutions' sites of interest, Internet public access sites and key data for each taxpayer's usual operations.

Image of the main page at www.sii.cl:



"Mi SII"

The primary innovation in the redesign of the Virtual Office is called "Mi SII", which concentrates the whole tax information of each taxpayer and puts it at their disposal, and allows easy access to all the electronic applications and diligences you need to undergo to fulfill your tax obligations.

"Mi SII" is taxpayer's entrance door for accessing their personal and customized information, by entering their RUT and secret password. This new tool allows accessing safely each tax background under full confidentiality. Additionally, the new service has been built to deliver information and work tools according to user's profile, whether an individual or a corporate.

a. Mi SII for Individuals

In the section called "My Tax Information", taxpayers can see a detail of their tax situation, lodged tax returns, ownership of real property, authorization of documents, etc.

In addition, in the section "My Tools" the user can find what they need to carry out on-line operations with SII. These options can be a notice of initiation of activities, tax returns and payments, inquiries about current tax situation, issuance of electronic fee bills, among other technological applications available to individuals.

Image of "Mi SII" for individuals:

SII online
Servicio de Información Integrada

Rut: 61957800 - 7 | Identificar Nuevo Contribuyente | Cerrar Sesión

Usted está en: > Mi SII

Rut: 61957800-7
Nombre/Razón Social: RUT DE PRUEBA RENTA 20
Domicilio: WDFJ #1343 Depto. Villa/pbl. , Comuna INDEPENDENCIA,
SANTIAGO REGION METROPOLITANA
Email: MECHEVER@SII.CL
[Actualizar Mis Datos](#)

Mi Información Tributaria

- Mis Datos
- Mi Situación Tributaria
- Estado de Mis Declaraciones:
 - Anuales (F22)
 - Mensuales F29
 - Mensuales F50
- Mis documentos autorizados
- Mis Bienes Raíces

Mis Herramientas

- Inscripción y Actualización del Registro de Contribuyentes
- Emisión Boletas de Honorarios
- Declaración Mensual (F29-F50)
- Declaración Anual (F22)
- Consulta Situación Tributaria**
 - Consulta Bienes Raíces
 - Denuncias de Evasión
 - Datos y Valores
 - Legislación y Normativa
 - Volver a la Página Principal

Mis Datos

Inicio de actividades	Término de giro	Teléfono	Fax
21-03-2002	NO	0	NO
Actividades económicas vigentes	Código	Categoría tributaria	Afecta IVA
OTRAS ACTIVIDADES DE SERVICIOS PERSONALES N.C.P.	930990	2	SI
Descripción general de Actividad indicada por el contribuyente	..		
Oficinas del SII para trámites presenciales	ALONSO OVALLE 680, SANTIAGO		

Para modificar datos ir a Modificaciones y Avisos

b. Mi SII for Corporates

As in the case of individuals in the section called "My Tax Information", taxpayers can see a detail of their tax situation, lodged tax returns, ownership of real property, authorization of documents, etc.

In the section "Other Options", users can find information relative to the legislation and regulation, data and values, required to fulfill a company's tax obligations.

Because companies have to use a larger number of technological applications and with a view to preserving the accessibility site and easiness of operation by expert users, these are displayed on the upper bar, unlike in the case of individuals.

Image of "Mi SII" for companies:

Fecha constitución	Inicio de actividades	Término de giro	Teléfono	Fax
99-99-9999	29-12-2005	NO	0	NO

Actividades económicas vigentes	Código	Categoría tributaria	Afecta IVA
CULTIVO DE TRIGO	011111	1	SI
FABRICACION DE PAN, PRODUCTOS DE PANADERIA Y PASTELERIA	154110	1	SI
OBRAS MENORES CONSTRUCCION (CONTRATISTAS, ALBANILES, CARPINTEROS)	454000	1	SI

Descripción general de Actividad indicada por el contribuyente	
RDDHSHFD	

Oficinas del SII para trámites presenciales	
PLAZA O'HIGGINS 2 LC. 12, VALLENAR	

Para modificar datos ir a Modificaciones y Avisos

4. FINAL COMMENTS

The SII is addressing the challenges faced by the country resulting from the changes in taxpayers, which require greater assistance quality and more services provided through a new strategic managerial approach aimed at, among a great many other things, educating, timely informing, assisting and facilitating taxpayers' tax fulfillment.

TOPIC 1.3 (Chile)

In this sense, the Assistance Platform plays a key role, in that it focuses on delivering assistance quality apt to encourage voluntary tax fulfillment while assuring the quality of taxpayer-associated information.

To achieve this, one of its functions is the education or training of taxpayers, informing them on tax obligations and terms, providing them with free tools available on the Internet or else a personal assistance that facilitates diligences.

Obviously, one of the primary objectives is to help taxpayers meet their obligations on-line, being this the reason that the personal assistance is aimed at continuingly training taxpayers on this modality.

An example of this, which also shows the impact pursued with this new strategic approach, is the promotion of the use of the Electronic Invoice among taxpayers, where the free-cost tools available on the portal MYPYME feature an electronic invoice module whose analogous assistance in the offices is stamping.

The personal assistance scenario poses a great challenge to on-line assistance, mostly if we consider the great success of SII's Virtual Office, being one of the most-visited pages and where Chile has hit world records, as is the case of the Annual Income Tax Return, which records 97.74% of Internet lodgment. Additionally, fulfillment-oriented diligences have increased, such as the issue of Electronic Invoices, whose number of issuing companies went up by 68.4% in 2008 and by 18.1% in the case of taxpayers issuing Electronic Fee Bills.

This is the frame for the Virtual Office's redesign, which intends to bring the taxpayer experience to a level based on taxpayer type, facilitating its use and enhancing sporadic taxpayer-user visits, while keeping the service levels usually provided to frequent or expert users.

The set of these measures and transformations in taxpayer assistance, and the commitment to contributing to the civic-tax education of new and future users of our services, will increasingly facilitate the enrollment, the voluntary fulfillment of tax obligations and the examination of taxpayers, a key part of the new strategic management approach being implemented by Chile's Internal Tax Service.

Now, to conclude this paper, we could affirm with the certainty resulting from our experience with the Chilean Internal Tax Service, that today the enhancement of taxpayer services must constitute, with no doubt, a flag Project in the Master Plan of modern Tax Administrations.

TOPIC 2

STRATEGIES FOR PROMOTING COMPLIANCE, THE "SUBJECTIVE BENEFIT" IN THE TAX ADMINISTRATIONS

Ponencia

Topic 2

STRATEGIES FOR PROMOTING COMPLIANCE, THE "SUBJECTIVE BENEFIT" IN THE TAX ADMINISTRATIONS

José Antonio Pereira
Director General
General Directorate of Taxes
(Portugal)

SUMMARY: 1. Introduction.- 2. Fiscal secrecy.- 3. Banking secrecy.- 4. Fiscal benefits.- 5. Payment on time (with discount).- 6. Payment in installments (without guarantee).- 7. Quantification of procedural costs.- 8. Degree of fiscal punishment.- 9. In the future.- 10. Conclusion

THE PRINCIPLE OF TAX EQUALITY AND THE POSITIVE DISCRIMINATION AGAINST TAXPAYERS

"Civilization is the reason for equality"

CAMILO CASTELO BRANCO¹

1. INTRODUCTION

All are equal before the law and are entitled without any discrimination to equal protection of the law (Article 7 of the Universal Declaration on Human Rights).

Equality is not an island or oasis, and it should be related to other principles, having to be focused in the global context of community values.

"The first equality is justice", to paraphrase VICTOR HUGO, a renowned French writer and poet from the 19th century. This is why this foremost legal principle of equality leads to treat as equal what is equal and as different what is different.

¹ Portuguese writer from the 19th century (1825-1890).

TOPIC 2 (Portugal)

All citizens have the same social dignity and are equal before the law (Article 13, paragraph 1 of the Portuguese Constitution).

This is why our Basic Law is not neutral; it deems this principle as one of the basic pillars of the State of Law.

Meanwhile, the Portuguese legal tax system followed this fundamental principle of the State of Law as it outlines that the Tax Administration exercises its duties according to the principle of equality (Article 55 of the General Tax Law).

By giving a different treatment to these different realities - an abiding taxpayer and an evader - the Tax Administration is acting with a sense of equality and justice. These two principles are like two lines of action that guide us, but that necessarily must always go hand in hand. At the end of the road, we found a destination: fiscal equality.

This equality applies to an existing rule on a specific situation, adhering to the principles of justice and equality.

To discriminate means to favor or harm somebody in relation to someone else.

To discriminate positively (affirmative behavior) means to favor someone who was at a disadvantage in order to reach a point of equilibrium. With this point of equilibrium, the goal is not to favor anyone, but to seek an egalitarian and truly fair society, making compliance a better example, because legal equality does not mean natural or naturalistic equality.

This is why at par with the principle of equality understood in a negative sense, meaning a prohibition of discrimination, it must be approached, above all, in a positive perspective; in other words, equal treatment to equal situations and unequal treatment to unequal situations.

2. FISCAL SECRECY

Tax administration leaders, officials, and agents are obligated to keep secrecy on the data collected on the tax situation of taxpayers and elements of a personal nature obtained in the procedures, particularly aspects of professional confidentiality or any other obligation dealing with legally regulated secrecy (Article 64, paragraph 1 of the General Tax Law).

The principle of confidentiality subordinates tax leaders, officials, and agents regarding the logic and necessary counterpoint of the duty of reciprocal

cooperation between the Tax Administration and Taxpayers (Article 59, paragraph 1 of the General Tax Law).

The legislation expressly outlines the criminal aspects of the principle of confidentiality of tax relations as it states that those officials who, without being duly authorized, disclose secrets that they learned or that were entrusted to them in the exercise of their duties or as a result of them, with the intention of obtaining for themselves or for others an illegitimate benefit or of harming public interests, the social security system, or third parties, shall be punished with up to three years in prison and a fine of up to 360 days (Article 92, paragraph 2 of the RGIT).

Taxpayers can only be led to comply with their additional obligations stipulated by the law and to provide the clarifications the Tax Administration asks of them regarding their tax situations, as well as the economic relations they maintain with third parties, beginning with the solid guarantee that the Tax Administration will keep the necessary secrecy of the facts it comes to learn.

In short, fiscal secrecy provides the necessary counterpoint to the duty of cooperation on the part of taxpayers.

Following the same reasoning, the lack of cooperation cannot help but have consequences, namely refusal to cooperate and opposition to tax inspection actions, which when are not legitimate, make the infringer fall in disciplinary responsibility as a result of it, which is counterproductive and criminal in terms of the law (Article 32, paragraph No. 1 of the Complementary System of Tax Inspection Procedures).

Since the principles of cooperation and confidentiality are connected, as we have seen, violating the former on the part of taxpayers has specific effects on the latter, as part of the current legal system.

Taking the cases of lack of cooperation on the part of taxpayers, which promptly put an end to the duty of secrecy, as examples, the Portuguese Law stipulates the following:

- Publication of a list of taxpayers whose tax situation has not been regularized, namely hierarchical lists in terms of debt amounts once any of the terms legally outlined to use the guarantee has expired or its exemption has already been decided upon (Article 64, paragraphs No. 1 and 5, line a) of the General Tax Law);
- Publication of the executive sale through edicts, advertisements, and postings on Internet, namely including the name or signature of those who were the object of an execution (Article 249, paragraph No. 1 and 5, line b) of the CPPT);

- The summoning via edicts of those who were the object of executions (Article 192, paragraphs No. 2 and 7 of the CPPT), calling the process coercive collection process, when a personal summons is not possible;
- Attachment of the goods of the debtor through notifications to third institutions, namely the debtor's employer;
- Summons to creditors when of any real guarantee right exists is outlined in the warrants (Article 240, paragraph No. 3 of the CPPT);
- Summons to the debtor's unknown creditors (Article 242, paragraph No. 1 of the CPPT).

3. BANKING SECRECY

All people's rights to personal identity, personality development, civil capacities, citizenship, good name and reputation, good image, words, the reservation of private and family intimacy, and legal protection against any form of discrimination are hereby recognized (Article 26, paragraph No. 26 of the Portuguese Constitution).

Meanwhile, "All citizens have the same social dignity and are equal before the law", according to paragraph No. 1 of Article 13 of the Constitution. This is why in a extreme situation in which there is a conflict between the individual interests of the taxpayer (infringer) and the basic duty of paying taxes, the latter prevails naturally, and the banking secrecy must be derogated as an imperative of the principles of fiscal truth, transparency, cooperation, and above all the fundamental right to fiscal efficacy to which abiding taxpayers are entitled.

The Tax Administration is empowered to have access to all types of information or banking documents without consent from the holder of the protected elements:

- Where there are indications of the commission of a crime of a tax-related nature;
- When there are specifically identified facts pointing to a lack of truthfulness on what was declared;
- When the situation outlined in line f) of Article 87 takes place or when the declaration made at the IRS offices significantly deviate, without a justified reason, from the patterns of performance that can reasonably allow manifestations of wealth as evidenced by the passive subject, according to the terms of Article 89 A.

The Tax Administration is still empowered to directly access banking documents in cases when there is refusal to submit them or to authorize them to be consulted:

- When it is a matter of documents supporting the accounting records of passive subjects of IRS or IRC who are the object of organized accounting;
- When the taxpayer usufructs from fiscal benefits or other fiscal systems, having the need to control the respective budgets and only to do so.

From this, it turns out that in the current Portuguese fiscal system, the **basic principle of the impossibility of derogating banking secrecy** prevails, being admitted only in exceptional cases of strong indications of lack of compliance by taxpayers; in other words, in cases of serious violations of the relationship of cooperation between them and the Tax Administration (Article 63B of the General Tax Law).

The lack of due compliance with the legitimate order or mandate regularly issued and emanating from the **general tax director** on matters of the **derogation of banking secrecy** is punishable as qualified disobedience, which entails prison terms of up to one year and fines of up to 240 days (Article 90 of the General Tax Infringement System).

The protected legal good must be duly respected by the public authority, cooperation, and loyalty expected from taxpayers in the relations with the Tax Administration (Article 59, paragraph No. 4 of the LGT). The tax administration tries to encourage or regulate compliance with tax obligations, particularly legitimate orders or mandates on matters of banking secrecy derogation.

The penalty is aimed at the addressees of the legitimate order or mandate (for instance, credit institutions or financial associations), assuming the existence of earlier communications.

Judging by what has been explained, it is clear that taxpayers are entitled to banking secrecy with constitutional protection (Article 26, paragraph No. 1 of the Constitution).

4. FISCAL BENEFÍTS

Exemptions, rate reductions, deductions from taxable items and taxes, amortizations, accelerated reimbursements, and so on constitute fiscal benefits (Article 2, paragraph No. 2 of the Fiscal Benefits Statutes).

Examples: exemptions on real estate (Article 44 of the Fiscal Benefits Statutes); deductions from collections based upon charges on real estate and new renewable energy equipment or equipment that consumes natural gas in hearths; education and training expenses; health; insurance premiums (Article 82 of the Code of Taxes on Revenues of Individual People), and so on.

This is how abiding taxpayers have at their disposal a vast assortment of fiscal benefits, which shows the tax institution's incentives for good fiscal practices. On the other hand, oversight emerges as a strategic ally with a view to increasing certain political guidelines in the social, cultural, economic, and environmental realms, which we cannot detail.

In the case of permanent or temporary fiscal benefits that depend on the recognition of the Tax Administration, the effects of the administrative action granted end when the passive subject fails to pay any taxes on revenues, expenses, or assets or insists on lack of compliance (Article 14, paragraph No. 5, line a) of the Fiscal Benefits Statutes).

The tax institution established the **cessation of fiscal benefits** in the case of periodic taxes (IRS) by December 31st of the year pertaining to the tax in question as long as after this date, taxpayers regularize their tax situations (Article 14, paragraph No. 7 of the Fiscal benefits Statutes).

These regulations have a teaching scope, encouraging the voluntary payment of taxes.

With a view to fulfilling the objective of the tax institution, the Fiscal Benefits Control Information System (SICBEF) was put in motion in September 2007, particularly the component of the control of fiscal benefits of passive subjects of IRS, IRC, and IMI owing fiscal debts.

5. PAYMENT ON TIME (WITH DISCOUNT)

In the free transmissions, if the **Stamp Tax** is **paid in full** by the end of the second month following the notification, a **0.5% discount** per month is applied, calculated upon the importance of each one of the items on which the tax is divided in terms of the following number, excluding the first one (Article 45, paragraph No. 2 of the Stamp Tax Code).

This is how the taxpayers who pay on time in relation to those who pay stamp taxes in installments are discriminated against positively, encouraging prompt and expeditious compliance with tax obligations.

When taxes exceed • 1,000, it is divided in equal installments, in a maximum of 10 installments and with a minimum • 200 per installment, adding to the first installment the resulting fractions of the rounding up of all installments, as well as the compensatory interests and the IMT that has to be paid in the process. The first installment is due in the second month following the notification, and each one of the remaining installments is due six months after the expiration of the previous installment (Article 45, paragraph No. 3 of the Stamp Tax Code).

6. PAYMENT IN INSTALLMENTS (WITHOUT GUARANTEE)

Decree Law No. 492/88 of December 30th outlines the collection and reimbursements of the Tax on Revenues of Individuals (IRS) and the Tax on Revenues of Collective People (IRC).

Decree Law No. 150/2006 of August 2nd amended Article 34A, whose paragraph No. 1 states that "debts of taxes on revenues of individuals (IRS) and taxes on revenues of collective people (IRC) for less than 2,500 (euros) and 5,000 (euros), respectively, **can be paid in installments before the beginning of the executive process, with the exception of guarantee**, as long as the debtor does not owe any taxes administered by the DGCI, according to the terms of this article."

Meanwhile, once the fiscal execution process is under way, the debtor (the executed person) is summoned, if it applies, to state his legal opposition to the fiscal execution or to request payment in installments (Article 196, paragraph No. 1 of the Tax Procedures and Process Code) and make the payments.

The Tax Administration cannot grant moratoriums in the payment of tax obligations, except in those cases expressly outlined in the law (Article 36, paragraph No. 3 of the General Tax Law).

Tax credit is unavailable, and it can only be reduced or derogated based upon the principle of equality and tax legality (Article 30, paragraph No. 2 of the General Tax Law).

In case the guarantee is not constituted, the executed person, along with the request, must offer a proper **guarantee**, which will consist of a banking guarantee, surety bond, insurance bond, or any other means capable of guaranteeing the credits of the plaintiff (Article 199, paragraph No.1 of the Tax procedures and Processes Code).

The suspension of the execution by virtue of payments in installments shall depend on the proper **guarantee** in terms of the tax laws (Article 52, paragraph No.2 of the General Tax Law).

This is how the tax institution positively differentiates taxpayers who requests payments in installments before the beginning of the fiscal execution process (coercive collection) in relation to those who do so at a later time.

7. QUANTIFICATION OF PROCEDURAL COSTS

The costs include a justice surcharge and the duties (Article 14, paragraph No. 1, line b) of the Tax Process Cost Regulations).

The justice surcharge on the execution process is reduced by one-quarter when payment is made before the personal summons or a summons by edict is issued (Article 14, paragraph No.1, line b) of the Tax Process Cost Regulations).

The justice surcharge is reduced by half during the execution process when payment is made after the personal summons is issued and within the term to express opposition (Article 14, paragraph No.1, line b) of the Tax Process Cost Regulations).

Once this term expires, the executed person pays the **tax surcharge in full**.

Unless the opposite is determined, tax responsibilities stemming from debts owed by others are seldom subsidiary in nature (Article 22, paragraph No. 3 of the General Tax Law).

The subsidiary responsible party (example: social bodies of collective people) is **exempt from a moratorium on interests or costs** if once summoned to comply with the main tax debt, proceeds to make the respective payment within the term to state opposition (Article 23, paragraph No. 5 of the General Tax Law).

This is how the tax institution burdens less those taxpayers who regularize the tax situations faster, keeping the Tax Administration from carrying out potentially more serious coercive actions against taxpayers and avoiding further costs for the Administration (such as attachments, executive sales, and so on).

8. DEGREE OF FISCAL PUNISHMENT

Those taxpayers who commit a punishable infringement against an ordinance can benefit from the **right to a reduction in fines** by 25%, 50%, or 75% of the minimum legal amount, according to the petition filed by the agent 30 days after the commission of the infringement or after this term without issuing a notice or at the end of the tax inspection procedure (Article 29 of the General Tax Infringements System).

Once the counter-ordinance process has begun, taxpayers are no longer entitled to a reduction in fines, but if they pay the fines within 10 days after the notification for their defense, they can benefit from the **anticipated payment**; in other words, they pay only a fine equal to the minimum legal amount stipulated for the ongoing counter-ordinance, and the necessary costs shall be reduced in half (Article 75 of the General Tax Infringements System).

In case that what has been argued here does not proceed, in the legal term or in the set term, the regularization of the tax situation loses the right to the reduction outlined in paragraph No. 1, and the process of counter-ordinance continues for the setting of fines and the collection of the difference (Article 75, paragraph No. 3 of the General Tax Infringements System).

Once the Tax Administration sets a fine, taxpayers shall no longer benefit directly from the reduction in fines or anticipated payment, but they may benefit from **voluntary payment**; in other words, if they pay the fine within 15 days after the notification is issued, a 75% reduction of the fixed amount proceeds, and the fine to be paid cannot be less than the respective minimum amount, without prejudice for the procedural costs (Article 78, paragraph No. 1 of the General Tax Infringements System).

If taxpayers, until a decision is made, fail to regularize their tax situations, they lose the right to the reduction referred to in paragraph No. 1, and the process continues with the collection of the reduced fine (Article 78, paragraph No. 4 of the General Tax Infringements System).

The tax institution punishes the deliberate failure to pay the tax installment over • 7,500, deducted according to the terms of the law and which they were obligated to pay, with prison terms of up to 30 days (Article 105 of the General Tax Infractions System).

In case the amount of the unpaid tax exceeds • 50,000, the punishment includes prison terms of up to five years and fines of 240 to 1,200 days for collective people (Article 105, paragraph No. 5 of the General Tax Infringements System).

Meanwhile, the law positively distinguishes those taxpayers who even though do hide tax facts from the Tax Administration ("material truth"), have promptly complied with the filing of tax returns. Based upon this assumption, line b) of Article 105 of the General Tax Infractions System grants an opportunity for these taxpayers to prevent the beginning of fiscal criminal inquiry process if they pay the unpaid taxes and its corresponding interests, as well as the applicable fiscal fines (Article 114, paragraph No. 1 of the General Tax Infringements System).

Regarding those taxpayers who in addition to having failed to pay their taxes also failed to file their corresponding tax returns, the principle of equality imposes the beginning of the fiscal criminal inquiry process, and the behavior may be punishable after over 90 days have elapsed after the legal expiration of the payment of the installment (Article 105, paragraph No. 4, line a) of the General Tax Infringements System).

In view of the current legal system on matters of tax counter-ordinances, it is clear that the tax institution positively values those taxpayers who cooperate with the Tax Administration in the reinstatement of the material truth and the regularization of their tax situations resulting from illegal actions.

9. IN THE FUTURE

This is why we are tempted to enter the future era.

An illustrious thinker from the 20th century, AGOSTINHO DA SILVA, when questioned about what he thought about the future, used to say fluently, "for the future to happen or come, it is not necessary to convince anyone; it will come whether we want it or not, because it already exists."

The Portuguese Tax Administration has made persistent efforts in the fight against fiscal fraud and evasion as a means to introducing better fiscal equality among citizens and companies.

Nevertheless, without giving up this permanent and absolutely essential principle of our organization, we have the perception that there still lies ahead a long road to travel regarding the positive differentiation that prevails, particularly with regard to those taxpayers who promptly and effectively comply with their fiscal obligations, setting their behavior as a teaching and civic model to follow by infringers, and it is up to the Administration to set up and value.

In this environment, the Portuguese Tax Administration is poised to support and encourage compliance with obligations by going out to meet taxpayers themselves, thus providing a large set of support services for voluntary compliance and establishing a rather friendly relationship with citizens and companies.

Communications with taxpayers do not entail mere contacts with those who insist in failing to comply with their fiscal obligations.

In this regard, the Portuguese Tax Administration is about to begin the implementation of an ambitious Strategic Plan for Taxpayer Service Quality,

aimed at promoting mutual and permanent interactions even in the duration of the voluntary compliance term with obvious gains in the form of simplicity, efficiency, competitiveness, quickness, and transparency for both taxpayers and the Administration.

One of the objectives is to **multiply the channels of communications** by expanding the channels of communications with taxpayers and developing the use of the Internet or telephones, in addition to personal presence.

In this regard, we foresee the implementation of **messages via SMS**, as well as new **Internet** functions, such as a **personal agenda**, which may contain notices on voluntary term expirations, information on legislative changes, handling of mail messages, and so on.

Acknowledging the advantages of information and communication technologies in the modernization of the Administration, the particular implementation of an **Electronic Financial Service - Site of Finances** - shall enable the promotion of Internet as a privileged relational interface between taxpayers and the Administration. The objective is to reach a level of electronic contact above 80% and promoting the site of the Tax Directorate General on the Internet among taxpayers who traditionally do not use it.

This is how taxpayers shall be able to mutually carry out interactions that are currently done through other services via the Internet

On the other hand, the Tax Administration is going to be able to carry out interaction and inter-operational functions with other public organizations (such as Courts, the Public Prosecutor's Office, Registries, and so on), in addition to private institutions, in the handling of information requests and their respective replies, thus freeing from those tasks resources from Central, Regional, and Local Services of the Tax Directorate General that currently handle them.

Another important objective to be implemented is the **virtualization of processes and communications**, namely the electronic document and the electronic document and notification, as well as the internal processes of the Administration by accepting recently approved legal provisions.

The Portuguese Tax Administration has learned about a constant growth in electronic interactions with taxpayers and in the use of the Internet as a privileged relational interface with taxpayers. At present, approximately 75% of individual taxpayers hand their tax returns via the Internet, and in the level of Tax on Revenues of Individuals and the VAT, 100% of taxpayers already use electronic means.

The objective of the Plan for Taxpayer Service Quality is to lure taxpayers who traditionally do not use the Internet to use it. This is why a new, more intuitive and friendly site is being implemented.

The availability of services via the Internet will allow the following:

- Compliance with all tax obligations;
- Reception and permanent consultation of the communications addressed to the Tax Administration, with support in paper or electronically;
- The submission of all types of requirements and requests;
- The virtualization of information communications from and for taxpayers;
- The progressive availability of systems that will be operated in a self-service manner on the part of taxpayers;
- The availability of an electronic mailbox for consultation of messages issued by the Tax Administration;
- The availability of a FAQ (Frequently Asked Questions) service to be used by taxpayers and based on a knowledge database in order to support finance services rendered by a call center (and electronic replies) and to allow taxpayers to have electronic access to information in order to answer most of their doubts on fiscal legislation without the need to make a petition from fiscal administration services;
- Support program on legislative interpretation matters, namely e-learning programs that taxpayers may access, many of which will be specifically addressed to them;
- In addition to all legal information, the site will feature relevant legal, doctrinaire, and juridical information and all binding information.

In this regard, **electronic kiosks** will be available with support from Tax Administration officials.

Currently a large number of very expressive corrective interventions, inspection procedures, gratuitous demands, hierarchical resources, coercive collection of debts and application of fines have their origin in taxpayers' deficient knowledge about their tax obligations or their *modus faciendi*.

Ignorance or the bad interpretation of the law does not justify the lack of compliance, nor do they exempt people from the established sanctions (Article 6 of the Civil Code).

Nevertheless, **tax administration's collaboration with taxpayers** includes public, regular, and systematic information on their rights and obligations, as well as the regular clarification of doubts on the interpretation and application of tax regulations (Article 59, paragraph No. 3, lines a) and f) of the General Tax Law).

The Tax Administration has bet on a substantial improvement in the quality and procedural efficiency in the answer to petitions made by taxpayers (such as gratuitous demands, obliging revisions, hierarchical resources, and so on), and it will continue do so in the future.

The implementation of the Plan for Taxpayer Service Quality will enable the elimination of all pending internal process by the end of next year, so that beginning now, all taxpayer petitions will be answered in a term of one month and never in more than three months.

10. CONCLUSION

We began with a renowned Portuguese writer from the 19th century, CAMILO CASTELO BRANCO, and we are going to end with a no less known Portuguese prose writer from the 17th century, FATHER ANTONIO VIEIRA², whose life was spent precisely between the two continents -- Europe and America - and who brilliantly and ahead of time defended the Principle of Tax Equality, leaving behind a precious and always current teaching, which we proceed to cite here:

"The major yoke of a kingdom, the heaviest burden of a republic are the immoderate taxes. If we want them to be light, share them among all. There is no heavier burden than death, and everybody pays it and no one complains because it is a burden for everyone."

Lisbon, February 14th, 1642

² *Portuguese writer and speaker from the 17th century (1608-1697).*

Case study

Topic 2.1

CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS OF TAXPAYER BEHAVIOR

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SUMMARY: 1. Introduction.- 2. Contents.- 3. Summary of the strategy: compliance and influencing taxpayer behaviour.- 3.1 Introduction.- 3.2 Start of risk management.- 3.3 Rethinking compliance strategies.- 4. Taxpayer behaviour.- 4.1 Motives.- 4.2 Regulations.- 4.3 Use of Behavioural Indicators.- 5. Making balanced choices.- 5.1 Diversified approach.- 5.2 Segmentation.- 5.3 Steps Towards a well Balanced Choice.- 5.5 Visible Supervision.- 5.6 Collaboration.- 5.7 Thematic Approach.- 6. Influencing taxpayer behaviour: Horizontal monitoring and communication.- 6.1 Brief history.- 6.2 Key elements of horizontal monitoring.- 6.3 Large businesses.- 6.3.1 Compliance agreements.- 6.3.2 Tax control framework.- 6.4 Medium-size businesses.- 6.5 Small businesses.- 6.5.1 Branch organizations.- 6.5.2 Administrative software.- 6.5.3 Tax Intermediaries.- 6.6 Communication.- 7. Measuring effects.- 7.1 From "output" to "outcome".- 7.2 Measuring effect.- 7.3 Performance measurement on a national level.- 8. Intelligence.- 9. Organization.- 9.1 Pooling expertise and central coordination.- 9.2 Educating staff.- 9.3 Developing and implementing new Tools.

1. INTRODUCTION

The policy of the Netherlands Tax and Customs Administration (NTCA) is to maintain and strengthen the willingness of citizens and firms to comply with their tax obligations. This policy is also echoed in the standing mandate of the NTCA: "The NTCA carries out the legislation which has been assigned to it as efficiently and effectively as possible. In its work it aims to maintain legal certainty and equality before the law. Servicing and respecting private individuals and businesses form an integral part of this work." The mandate

applies to all NTCA's duties which include levying, monitoring and collecting state taxes, national insurance contributions and employee insurance premiums. Also the NTCA is responsible for distributing income-related benefits. Finally supervising the inflow, outflow and transit of goods and supervising compliance with legislation in the fields of economy, health, environment and safety, economic classification and financial integrity are NTCA-duties.

2. CONTENTS

This presentation describes the compliance strategy in place in the NTCA, focusing on businesses. A brief description of this strategy (chapter 3) is followed by a more in depth look at the focus of it, taxpayer behaviour (chapter 4). In chapter 5 the different factors determining the strategy are described, focusing on the way choices are made. The new tools aiming at influencing taxpayer behaviour are described in chapter 6. Measuring the outcome of the tools used in the supervision strategy is the context for chapter 7. The use of intelligence plays an important role so a separate chapter is dedicated to that subject, including the knowledge on individual taxpayer behaviour (chapter 8). The presentation concludes with a brief insight into the organizational aspects (chapter 9). Throughout the presentation good practices are included.

3. SUMMARY OF THE STRATEGY: COMPLIANCE AND INFLUENCING TAXPAYER BEHAVIOUR

3.1 INTRODUCTION

The work of the NTCA is about compliance. Compliance is when citizens and businesses report relevant facts correctly, on time and in full and pay the correct amount on time. The NTCA has to operate in a changing environment in which society demands a decrease of administrative burdens, a responsive tax administration and effective law enforcement. The NTCA has adjusted its compliance strategy to these expectations and developments in society.

3.2 Start of Risk Management

During the past 10-15 years the compliance strategy of the NTCA was risk based and tax return driven. This meant that tax returns were examined and actions with regard to non-compliance were re-active. One of the assumptions behind this approach was "re-active corrections improve taxpayer behaviour". A risk based approach means that those tax returns that are deemed to carry the most significant risks are checked. Also a lot of data on individual businesses are gathered and kept. Due to the sheer number of businesses

(1,2 million small enterprises) tackling all risks on an individual level is not possible. In addition to the changes in society and the call for effective enforcement, also research into fraud within the small businesses segment has shown that the risk based approach does not greatly influence taxpayer behaviour.

3.3 Rethinking Compliance Strategies

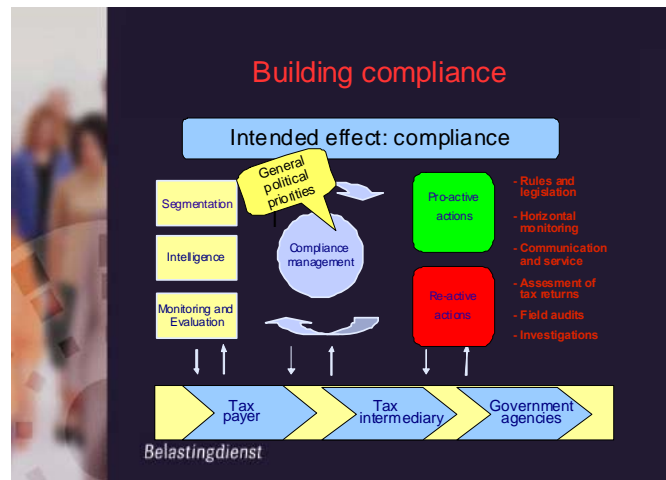
Based on the experiences with risk management, the changes in society, knowledge from behavioural science and developments in the way of approaching enforcement, the NTCA has from 2005 started to change its compliance strategy. Keywords are now:

- from repression to prevention
- mutual trust, understanding and transparency
- shared responsibility
- working real time
- certainty in advance
- preventing double work
- thematic approach
- cooperation with other authorities
- visibility
- focus on outcome instead of just output

To achieve these goals the NTCA has added new tools to the more traditional, vertical ways of supervision. These include horizontal monitoring and communication. The aim of these new tools is to influence taxpayer behaviour: pro-active instead of re-active actions.

Compliance management is about determining which instruments and activities have to be used, and how, when and directed at whom, to positively influence tax compliance.

Figure 1: building compliance



4. TAXPAYER BEHAVIOUR

4.1 Motives

Why people do or do not comply with tax legislation is an important question for tax administrations. The reasons or motives underlying taxpayer behaviour can be used as a starting point for compliance activities. Understanding taxpayer compliance behaviour is therefore crucial for tax administrations. Scientific literature points at different motives and conditions for tax (non-)compliance. Economic or instrumental models of tax behaviour assert that people weigh the (expected) profits of evasion against the (perceived) chances of getting caught and the penalties imposed when evasion is being detected. These economic models appear to form important basis for policies developed by many tax administrations to stimulate compliance and reduce evasion. However, economic models cannot explain the existing high level of compliance. Other factors are of importance. Research has shown that the possibility and opportunity for non-compliance are of significance. Furthermore, the importance of personal and social norms as determinants of compliant behaviour has also long been acknowledged; people are not solely motivated by self interest and do not act as a result of cost-benefit analyses only. Rather, people's personal convictions about the way one should or should not behave and the anticipated reactions from their social environment are important motives for compliant or non-compliant tax behaviour. Research has shown that a purely repressive approach with corrections and sanctions does not have a lasting impact on taxpayer behaviour.

Good Practice

A study of the effects of publicity has been carried out in the Netherlands. Taxpayers were given the chance to make a voluntary disclosure to the NTCA that they held a foreign bank account not previously declared on their tax returns. In exchange for disclosure they were guaranteed exemption from penalties - although they were still required to pay the tax due, with interest, going back up to twelve years. The possibility of voluntary disclosure already existed but was publicised by means of press releases. These were carefully worded; some sentences appealed to the internal (personally relevant coverage) or social (attention on the standards and actual behaviour of others) norms, others pointed to the ease of making a voluntary disclosure (a form published on the internet) and others referred to the consequences of non-compliance (repressive element). The number of taxpayers making a voluntary disclosure was then monitored and matched to these sentences in the press releases. The results were that messages appealing to the internal norm and the social norm were particularly effective. Also the ease of making a voluntary disclosure turned out to be important. The repressive element proved to be the least effective. This knowledge has set the standards for press releases in similar cases.

4.2 Regulations

By regulating behaviour, the government itself creates important conditions for compliance. Due to their instrumental nature, complexity and tendency to change, many socio-economic regulations are conducive to violations. Perception of a regulation as unreasonable or arbitrary may also become a motive for not complying with it. Furthermore, unclear regulatory prescripts, an abundance of regulations or regulations subject to different interpretations, can give rise to efforts to find loopholes in the law. In this sense, a regulation itself can create opportunities for violations.

Good practice

NTCA tests the simplicity and feasibility of proposed laws and rules beforehand. This is standard practice and results may lead to a change in the proposals. Non-compliance due to unnecessary complexity is prevented.

Complexity of rules and processes is a major issue for tax administrations. The NTCA has instituted a complexity reduction programme. Part of this programme is to research the possibilities for simplification of tax rules; this enables compliance and reduces administrative burdens on taxpayers. Major legislative changes are discussed beforehand with taxpayers' bodies, business organizations and organizations of tax intermediaries.

4.3 Use of Behavioural Indicators

The practical use of insights from behavioural science is included in the NTCA's strategy. Behavioural indicators as motivation, capacity and opportunity play an important part in the NTCA's approach towards making well balanced choices.

5. MAKING BALANCED CHOICES

5.1 Diversified Approach

The NTCA is putting its efforts towards improving supervision. It wants to enhance the effect of its actions and, at the same time, reduce the administrative burden involved in supervision. The principal challenge for the years ahead is to make supervision more selective and to see where the NTCA shares responsibility with taxpayers. The basis of the NTCA's actions is trust so taxpayer's dealings are made as straightforward as possible. In cases where trust turns out to be misplaced, a more repressive approach may be chosen; the NTCA will take effective measures. By deploying a more diversified approach, the NTCA is able to keep its increasing - and highly dynamic - client volume at an acceptable compliance level.

This approach involves well-considered choices that weigh the compliance effect to be achieved, and the supervision instruments required.

5.2 Segmentation

Well-balanced supervision choices require segmentation. Segmentation involves breaking down the total pool of taxpayers into groups with shared features such as financial interest, complexity of the tax issues faced, scale, etc. The NTCA has created four segments: Private Taxpayers, Small Businesses, Medium-Size Businesses and Large Businesses.

In the large businesses-category, which includes around 2,000 of the largest mostly multinational companies, the nature of the tax issues and the scale of the interests necessitate a customised approach. Around 12,000 companies belong to the medium-size businesses segment. Here, individual client handling is key. A similar approach is ineffective in the rapidly-expanding category of small businesses (1,2 million small enterprises). In this category a further segmentation has to take place. The compliance strategy used takes into account the specific characteristics of the "sub-segment" involved and the desired effects of a supervision strategy. The steps to be taken are listed in paragraph 5.3.

5.3 Steps Towards a well Balanced Choice

Choices are made with regard to issues where compliance is at risk or needs improving. Once a risk of non-compliance has been identified it needs to be assessed, weighed and a strategy has to be chosen. It is important to realize that improving compliance is at the heart of the NTCA's strategy; an approach working towards influencing taxpayer behaviour is now in place. This means making well balanced choices. The NTCA has recently developed a step-by-step plan for making these choices. This approach builds on the experiences with the strategy of managing risky tax returns but new elements have been added:

- analysis of the intended effect of the supervision strategy
- determination of the causes and behavioural facets of non-compliance
- segmentation based on causes and behavioural facets
- using both preventive and reactive supervision tools

This step-by-step plan applies to issues dealt with at a national level and to issues which are researched in the regional offices of the NTCA.

1. First Orientation

The NTCA (both on a national level and tax regions) receives signals on risks from different sources. A signal points to possible non-compliance or insufficient compliance regarding taxpayers obligations (registration, filing, payment and reporting). Once a risk has been indicated it is important to determine a number of aspects:

- Which tax rules are concerned?
- Is a specific group of taxpayers (segment) involved?
- Are certain objects or tax events concerned?

This step aims at describing the risk of non compliance, including legal aspects and the segment of taxpayers concerned.

Good Practice

The NTCA checks screens proposed legislation on a number of aspects, including the ease for taxpayers to comply with the (new) rules; changes can then be made in the draft.

2. Analysis

The second step is a more in depth analysis. This means the size and intensity of non-compliance and its seriousness are analysed. Also priority is

determined. This step leads to a go/no go decision for developing a compliance strategy.

3. Outcome

The general aimed for outcome is compliance and in the third step it is important to determine precisely the desired outcome of the supervision strategy. The result of this step is to describe the intended improvement with regard to the following areas of taxpayer behaviour:

- a. Registration
- b. Filing
- c. Payment
- d. Reporting

At this stage it is important to realise that measuring outcome (the effect on taxpayer behaviour) is not always easy or straightforward. Measuring output is more concrete: it is about figures: the numbers of audits or the amount of taxes collected. Measuring outcome is about measuring changes in behaviour which is not easy and which cannot be easily attributed to single causes or tools.

4. Analysis Causes of Non-Compliant Behaviour

This step involves research into the possible causes for non-compliance. Why do taxpayers not comply? At this stage the three contributing factors (motivation, capability and opportunity) are researched in depth and in relationship with each other. Determining factors are knowledge and motivation on the part of the taxpayer but also the perception of the tax administration's supervision strategy. This step results in a list of causes.

5. Group of Taxpayers

This step focuses on the subject; the taxpayer or group of taxpayers who are not complying. In the case of a group of taxpayers, the analysis is aimed at determining the causes of this segment's behaviour and whether differences exist in this group. This step results in a list of the main segments of taxpayers, their (non) compliance behaviour and the causes for this behaviour.

6. Supervision Tools

The NTCA has a broad range of supervision tools at its disposal. Besides preventive instruments such as assessing legislation, communication, services and visits to companies, there are repressive tools such as audits, fraud investigations, administrative fines, etc. Relatively new tools in the mix

are measures such as horizontal monitoring, supervision communication and working with other supervision agencies. These tools intend to prevent non-compliance and influence taxpayer behaviour beforehand. Repressive instruments are not always the most suitable means for bringing about long-term shifts in behaviour. When taxpayers continue to default out of ignorance, communication and services provide by visiting start-up businesses, may prove more effective instruments.

7. Planning

8. Execution of the strategy

9. Evaluation

In this phase one of the most difficult aspects of the supervision strategy is addressed. It is about measuring the outcome of the supervision strategy. This subject will be dealt with more in depth in chapter 7.

5.5. Visible Supervision

It is important for NTCA to be visible as an supervision organization. Visibility is also aimed at compliance. Therefore NTCA carries out a large number of audits. To reinforce visibility, audits will be carried out on the basis of theme, wherever possible. In addition to risk-based and interest-based selections, a large number of small audits will be conducted which will focus on one specific risk and be of shorter duration.

Good Practice

In 2007 the NTCA carried out a nationwide examination on private use of company cars. The employee has to pay income tax when exceeding 500 kilometres per annum. If an employee produces a declaration stating no more than 500 private kilometres will be driven with the company car, the employer does not have to withhold wages tax. Random checks showed that a number of employees declared less than 500 kilometres of private use, but in fact drove more. This called for visible supervision. The NTCA published its intent to examine this issue beforehand so employees could change or withdraw their statement. Supervision was carried out using recognizable "NTCA-cars" taking pictures of cars using automatic number plate recognition to read vehicles' number plates. If the statement "less than 500 kilometres" had not been changed or withdrawn, taxes were re-assessed as well as fines imposed.

Themes involve a project approach which preferably involves several risks faced by objects or subjects, resources, processes and tools. Naturally, supervision communication, a preventive measure, is also used as an

instrument for enhancing the visibility of the activities. To step up the impact of its actions, the Fraud Division within the NTCA (FIOD-ECD) will focus on cases with significant social visibility such as combating money-laundering. The number of campaigns carried out to trace unknown taxpayers and flows of income and to recover outstanding tax debts, will be stepped up.

Good Practice

In 2007 and 2008 the NTCA used both preventive and repressive tools in examining compliance with the obligation to issue an invoice. In a pilot project with regard to catering wholesale businesses letters communicating about their obligations were sent to these businesses. Also the NTCA visited these businesses to explain the rules. The consequences of not complying were also explained. In cases of persisting non-compliance NTCA will interview leaving customers at the exit of the building asking for their invoice and matching it to their purchases. This strategy has worked as a deterrent.

5.6 Collaboration

Collaboration enhances the efficacy of the supervision and reduces the administrative burden by preventing double work. First and foremost, collaboration within the NTCA is of great importance. Stepping up collaboration relates to both strengthening the information position, and the concrete way in which projects are tackled.

The NTCA is also seeking collaboration with supervision agencies outside NTCA. Some aspects of fraud, where various types are in evidence, can only be tackled effectively by multidisciplinary teams. Consequently, the NTCA is taking part in intervention teams where the joint focus is on determining the administrative integrity of companies. Within the investigation process, too, it is increasingly working in multidisciplinary teams, where the FIOD-ECD works closely with other investigative bodies such the Social Intelligence and Investigation Service (SIOD) and the National Investigation Service (Nationale Recherche). The collaborative effort is often still of a repressive nature. In the period ahead, the collaboration with other supervision agencies can also give 'advance action' a more central role.

Increasing globalisation means that collaboration with partners abroad is of greater importance and intensity with regard, for instance, to bilateral and multilateral audits and mutual assistance. Fraud is a cross-border activity and tackling it effectively requires cross border collaboration. The NTCA wants to help to improve international fraud prevention efforts by clustering knowledge and exchanging information within the European Union. For non-EU countries, the collaboration and information exchange set out in the bilateral conventions

serve as a basis for preventive operations. International assistance in collecting taxes is also deployed in the battle to combat international fraud.

5.7 Thematic Approach

NTCA is aiming for a thematic approach in supervision. A theme covers a number of years and it focuses on an integrated, broad approach. This means issues and branches are targeted where not only tax risks are concerned but also other socially relevant subjects feature. A good example of this is the theme commencing in 2009: the labour market. Not only tax risks are concerned here but also issues involving illegal labour, temporary work agencies, human trafficking etcetera. This is a broad subject which needed more focus. Therefore the theme has been narrowed to the supply of and demand for paid labour through intermediary agencies. This issue is currently being researched and developed along the steps described in paragraph 5.4.

6. INFLUENCING TAXPAYER BEHAVIOUR: HORIZONTAL MONITORING AND COMMUNICATION

6.1 Brief History

The NTCA's general policy objective is to strengthen taxpayer compliance. This objective has, in line with the standing mandate, remained constant for years. But that does not mean the approach has not changed. What was efficient and effective ten years ago is not necessarily so today. Insights shift, society is in a constant state of flux, and technological capabilities are increasing. In recent years the NTCA's supervision strategy has shifted from 'control based on an absence of trust' to monitoring through trust. This evolution of thought is not unique to the NTCA. In its 2002 report 'The future of Law-Based Society'¹ the Advisory Council on Government Policy refers to the 'horizontalisation' of society as a major development. In future, according to the Council, government and citizen will work together more and more: citizens and businesses want fewer rules and increased responsibility. This also transpired from meetings held in 2003 with the NTCA, the largest employers' organisation and with some multinationals. These organisations reported that a culture of distrust existed between the NTCA and companies. At the same time backlogs of 7 or 8 years were no exception. Tax inspectors confirmed that they too experienced that the relationship with businesses was not always a perfect one. Also they reflected that they too found it difficult to work with a backlog. In a nutshell, the NTCA and businesses used to have insufficient trust in one another and consequently shared little information.

¹ [De toekomst van de nationale rechtsstaat], the Advisory Council on Government Policy [Wetenschappelijke Raad voor het Regeringsbeleid (WRR)] (2002)

In order to resolve these issues in 2005 the NTCA introduced a concept known as horizontal monitoring.

6.2 Key Elements of Horizontal Monitoring

Key elements of the concept of horizontal monitoring are mutual trust, understanding and transparency. Making well-balanced choices with regard to supervision strategy means that the NTCA ascertains where it can share responsibility for compliance with social parties. The NTCA believes that the majority of people, businesses and institutions can and wish to be socially responsible. By making a sharp distinction between high risk and less risky businesses and leaving certain supervision tasks to bona fide businesses, there is scope in the NTCA own supervision activities for tackling those who do not adhere to the rules very closely. So, in this regard, horizontal monitoring proves an effective addition to traditional, vertical supervision, in which (in a top-down approach) the government supervises adherence with the rules.

The starting point works on the principle that supervision is a responsibility shared by all partners in the tax chain. In other words, it is a partnership. In brief, the collaboration is based on the conditions trust, transparency, equality, and acknowledging mutual interests. The collaboration aims at resolving problems beforehand if possible, and preventing double work in the chain. It is a strategy that offers taxpayers speedier certainty; also, fewer time-consuming checks will need to be performed afterwards. By stepping up legal certainty and reducing the administrative burden, the NTCA intends to help create an attractive climate for establishing businesses. It is an approach in which the Netherlands is at the forefront in the international field. The OECD is propagating tightening up the relationship between taxpayers, tax administrations and intermediaries; the Netherlands approach is cited as an example of this.

The horizontal approach has its value for all segments of business taxpayers. The segment's characteristics determine how the principles of horizontal monitoring are applied.

6.3 Large Businesses

6.3.1 Compliance Agreements

The segment of large businesses consists of about 2,000 enterprises. The approach of horizontal monitoring is in line with international developments relating to financial reporting, which aim to increase and compel transparency. Since the beginning of the 1990's a number of leading corporations have run into problems because their internal and external control systems functioned

inadequately. In response a considerable number of corporate governance codes and laws have been drafted and enacted. Common to these codes is the obligation for the management of a company to make an "in control statement" in the annual report. This statement applies also to tax risks. Most material weaknesses in the business processes have to do with taxes. Result of this development is that tax is becoming increasingly important in the boardroom.

This development is part of the NTCA's implementation of horizontal monitoring for this segment. The goal is that both parties have an understanding of the current risks and be up-dated on each other's standpoints. Any problems in implementing new legislation, and the consequences of new legislation, are also discussed.

Good practice: Compliance Agreements

With regard to the segment large businesses the NTCA started in 2005 with a pilot project in which "compliance agreements" were drawn up with 20 large businesses, mostly listed on the stock exchange. As commitment at the highest level is of crucial importance for this new approach "Board to Board" meetings were called. During these meetings the Board of the NTCA asked for the commitment of the company's Board for this new way of co-operation. Based on the Board's commitment, a compliance agreement was drawn up between the business and the Tax Administration.

Compliance agreements are agreements about the manner and intensity of supervision. The foundation of the compliance agreements rests on the key values of horizontal monitoring: mutual trust, understanding and transparency. This trust has to be justified. That is why the Tax Control Framework of a business has to be solid (see paragraph 6.3.2).

The core characteristics of a compliance agreement are:

- significant tax risks are disclosed by the company on a real time basis
- the company submits facts and its view on the tax consequences
- the tax administration in return provides its view on the tax consequences expediently.

This results in a tailor-made approach where both parties acquire certainty in advance. And audits don't need take place so frequently or in detail as they used to. It is important to note that the company is not obliged to submit tax advice, internal or provided by tax intermediaries. The process of drawing up the agreements also included the solution of tax issues which were part of the backlog and had been pending during a number of years.

Compliance agreements cover all taxes; they also include tax collection. It is important to note that agreements are not about putting aside the boundaries of law, tax policy and jurisprudence and they do not create additional rights or obligations for the partners. A compliance agreement is not a legal document. It is no more than 1,5 pages and it is available in English, German, Spanish and Russian.

The first part of the pilot has been evaluated. Both parties, large businesses and tax inspectors, stated that this new way of cooperating is more effective and efficient. Both listed the following advantages:

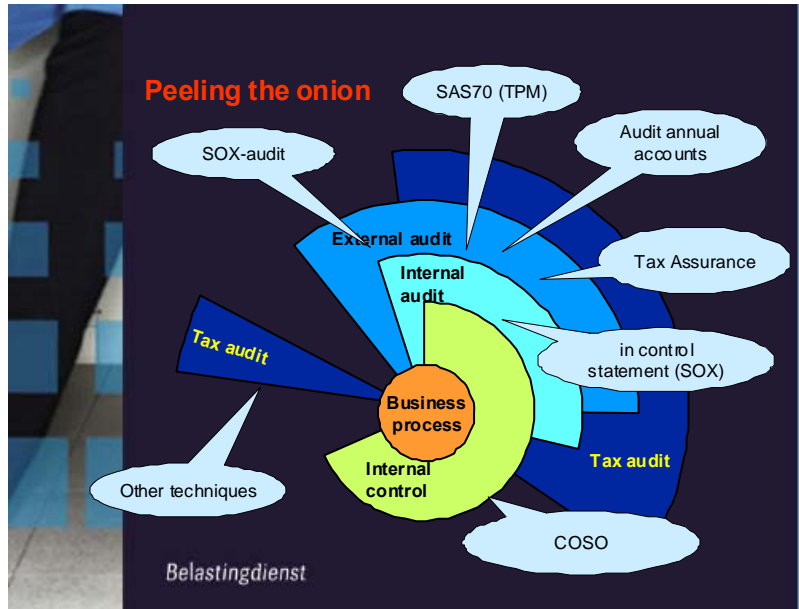
- working on actual issues
- reduction of uncertainties
- expedient dealing with issues
- The tax inspectors added that they noted an increased transparency and mutual trust. Also communication with the businesses had increased and improved. Agreements have also made for faster internal processes and the involvement of management is considered an improvement. Due to the success of the pilot this has been extended with 20 businesses in 2006.

6.3.2 Tax Control Framework

One of the major principles of horizontal monitoring is mutual trust. The tax administration trusts that companies will identify and report significant tax risks. This trust is not blind trust. In order to be able to issue an 'in control statement', a business needs to have set up an Internal Control Framework (ICF). Its objective is to control business processes. The 'Tax Control Framework' (TCF) is part of an ICF and focuses on the internal control of tax processes. The main premise for the NTCA is that compliance agreements are concluded with businesses whose TCF's are solid. The TCF gives a business an ongoing and up-to-date view of its tax position. All taxes but also correct and timely payment of these taxes, fall within the scope of a TCF. Tax strategy is regarded more and more as the responsibility of all levels of business management including the highest level ('tone at the top").

Because the TCF is a tailor-made product, made for and by the business itself, the NTCA provides no model for a TCF. Until recently supervision meant focusing directly on risky tax returns. Now however, the NTCA wish to focus on an assessment of the design, occurrence and operating effectiveness of a TCF. The Tax and Customs Administration must be able to determine whether a TCF is equal to the task of providing reliable tax information. The "onion model" is used.

Figure 2: peeling the onion



All layers of controls surrounding the business processes are peeled away, building of course on work already done by third parties for example the external accountant, tax auditor, internal auditor, tax department etc. Important here is to determine whether the business has drawn on tax expertise and, if so, to what extent. In doing so, we also work together with various disciplines. The number of tax risks will decrease as internal control improves. If a TCF is solid and in line with the principles of the compliance agreement and tax aspects are discussed "real time" then tax returns require only very limited monitoring. If a TCF is solid, our monitoring focuses on the effect of internal control measures and preliminary discussions.

Control of tax processes and tax assurance are currently not only a point of interest for the NTCA, also the major firms for tax consultants have developed expertise in this field. Also the Netherlands Business University has taken up the subject in research and programs.

6.4 Medium-Size Businesses

The next-largest businesses are about 12.000 in number. We call these medium size businesses. The supervision strategy with regard to this segment is aimed at individual client handling. The aim is to explore the possibilities to conclude compliance agreements with these businesses as well. At the moment the NTCA is focusing on businesses in the non-profit sector.

Compliance agreements have been drawn up with three municipalities and provinces. A pilot project has also begun in this segment to see if compliance agreements can be made with the business and external adviser at individual level regarding the audit which will be performed at the company by the external adviser.

6.5 Small Businesses

Horizontal supervision also has added value for the Small Businesses segment. Due to the great number of small enterprises, about 1.2 million, it is impossible to conclude individual compliance agreements with all of them. The principles of horizontal monitoring however can also be applied for this large group of taxpayers. This is not done by way of an individual approach but a collective approach is used. Real time co-operation means certainty in advance. It also means that the tax administration and the taxpayer do not have to discuss issues after the tax return has been filed. This in turn leads to a reduction in the administrative burden for taxpayers.

6.5.1 Branch Organizations

The first strategy is that NTCA has started a dialogue with branch organizations. In this dialogue the tax issues that arise specifically in their branch are determined. Jointly solutions for these issues are researched. If a solution is found, an agreement is drawn up with the branch organization. Individual entrepreneurs then sign in to the agreement, stating that they will apply the solution in their tax processes and tax return. This means no discussion afterwards on this issue and tax returns will not need specific checking on these points. A number of agreements are currently in place with specific branches.

Good practice

In 2007 agreements were concluded between the NTCA and the trade organization for paper and leaflet distributors. 100.000 'newspaper boys' are at work in this branch and 80 distribution companies. A history of problems existed with regard to wages tax, specifically about the fiscal position of distributor and employee (distributor's obligation to withhold wages tax). The agreement settled the fiscal position in determining the criteria which apply for determination of a "newspaper boy" as employee. The agreement creates a level playing field and gives the branch an improved public image. The agreement also entails audits by public auditors.

6.5.2 Administrative software

Another way in which the NTCA try and avoid discussion on the tax return afterwards is by promoting the use of "trusted" administrative software. This is done by assessing software, for example on bookkeeping or a cash register, in advance thus providing certainty on the tax facets of the software.

6.5.3 Tax Intermediaries

With regard to small enterprises a chain exists from transaction to tax return. For this chain the NTCA is building a tax control framework in cooperation with the other links in the chain. The NTCA's partners in this are the tax intermediaries. Agreements are concluded between tax intermediaries and the NTCA. The focus of these agreements is not to solve a specific tax issue but to agree on attitude and responsibilities in the tax chain. By aligning work processes and trusting the internal quality systems of the intermediary double work is prevented. The NTCA, in processing tax returns, can build on the work done in previous links in the chain without having to check it. NTCA currently has four agreements in place with large organizations of tax intermediaries. The subjects vary: from wages tax to all taxes. The agreement between the tax intermediary and the NTCA involves a third party: the tax intermediary's clients. Their part is to subscribe to the agreement. If this is done, they are part of the agreement and this creates a "green lane" for their tax returns.

It is important to note that, as with the compliance agreements with large businesses, trust of the tax administration has to be justified. This means that the tax intermediary has to have an internal quality system to which clients also have to adhere.

NTCA is no longer "just" working with tax intermediaries in discussing individual tax returns. An enhanced relationship is being built with them, with benefits for both parties. This enables both parties to monitor on a meta-level. All parties have to invest in a learning circle and solve issues which may arise such as incorrect returns.

6.6 Communication

Horizontal monitoring is one of the new tools in the supervision strategy of the NTCA. Another one is using communication and service to promote compliance. The NTCA undertakes a large number of visits to companies, particularly to start-up companies. This is founded on the conviction that, regarding compliance, the greatest impact on companies' tax return behaviour is achieved when companies are in the start-up phase. Visits to companies perform two key aspects of supervision - service provision and prevention.

During the visits, a clear picture of the company is gained and potential risks in the company's administrative system can be assessed. Start-up businesses are informed of their obligations and the criteria their administration must meet. Where possible, these visits are carried out in collaboration with other parties - Chambers of Commerce, fiscal intermediaries and branch organisations.

7. MEASURING EFFECTS

7.1 From "output" to "outcome"

For tax administrations performance measurement can take place at different levels. The first level would be to measure the effectiveness of each step in the compliance strategy by asking relatively simple and straight forward questions: were the right risks identified, were they correctly analysed, was the right form of treatment chosen, etc. At the second level the compliance strategy as a whole is evaluated, by examining how and to what extent the application of the process contributed to the achievement of the tax administration's objectives. Finally, the evaluation can help to ascertain the effectiveness of the organisation's strategy itself.

Traditionally, "output" is measured. Output is what is produced, such as the number and quality of audits, the number of reassessments or collected revenue. This output however is not the ultimate goal of the NTCA; its aim is to strengthen compliance and thus influencing taxpayer behaviour. The evaluation should not focus on output alone. Nowadays outcome measurement is gaining popularity. A completed audit is regarded as output. Outcome however has to do with a higher level of compliance. The outcome is the impact or effect of the strategy employed by the tax administration. Measuring the effects of a strategy is to provide an insight in the effects of supervision/compliance activities on taxpayer compliance behaviour.

7.2 Measuring Effect

It is important to distinguish measuring of effects from monitoring and evaluation. Monitoring is about gaining an insight on a segment of taxpayers during a specific period of time. Evaluation is about testing to what extent internal and external goals have been reached. Measuring effect is about the impact of a supervision activity on taxpayers' attitude and behaviour.

Within the NTCA measuring effects on taxpayer behaviour is a new and very important part of the supervision strategy. This activity takes place on a national level as well as within tax regions where the effects of specific supervision activities are measured. A brochure has been developed in which

the process of measuring effects is described in a series of checks. It is for example very important to determine the goal of the supervision activity as precisely as possible and to break this down in sub-effects that can actually be measured. A number of methods are available for actually measuring the determined sub-effects. Both quantitative and qualitative methods exist and are applied separately or jointly. It is important to then plan the measuring activities and hire well-qualified staff to undertake this task. It is also important to realise that a change in behaviour will usually take some time to become visible.

7.3 Performance measurement on a national level

On a national level data are also gathered and analysed. First by way of random checks on businesses. Secondly the compliance monitor is being developed. Both ways of measuring are carried out on a nationwide scale. The results yielded are used for evaluating the compliance strategy and finding out the taxpayers perceptions. By systematically measuring, analysing and evaluating the interventions of the NTCA, (the effects of) its supervision instruments can be understood and it can alter its approach if necessary. This is how the intelligence learning curve has been designed.

8. INTELLIGENCE

Intelligence is more than just a product (information); it is also a process (gathering information) as well as a way of working: dealing with people, data and tools intelligently.

In the Netherlands the supervision strategy is for a large part determined by themes, projects and approaches which are determined for the NTCA as a whole. The other part of the supervision strategy is established on a regional level. Intelligence plays a major part in this and therefore the NTCA has decided that all its departments and units (Tax and Customs Administration Regions, Customs, Fraud division FIOD-ECD and Benefits) will have their own intelligence organisation. Organising intelligence close to the primary process ensures lines are short and information exchange is speedy. It also helps to keep the organisation at a manageable scale. The approach and know-how are shared and the computer systems of the various units are harmonised. The tactical/operational intelligence is structured at regional level. This means that for large and medium size businesses tax risks with regard to individual taxpayers are available and registered. With regard to small businesses more segment-oriented information on the branch and its behaviour patterns is made available.

The NTCA is reinforcing its intelligence so that administrators and managers will be able to make a well-considered choice and select the appropriate type of supervision strategy, and maximise the effect of their actions. Choices are based on knowledge of taxpayers and the efficacy of the tools to be used. The basis of the intelligence comprises details available to the NTCA: tax returns, the basic registries, collection, recovery, services, investigation etc. It is also expanding the information and expertise position with regard to branches/segments. . New information terrains are being explored to pinpoint phenomena and trends. Some of the key tools are physical supervision ('on the street') to gain insight into economic reality and digital supervision (online). These 'eyes and ears' give staff at the NTCA information on activities that develop outside the official bounds of the modern information society.

9. ORGANIZATION

9.1 Pooling Expertise and Central Coordination

Supervision and compliance management take place both on a central, national level and within the tax regions.

The central level is organised by the NTCA's Nationwide Supervision Organization (NSO). The NSO is a joint venture between all tax regions. Expertise on all aspects of the supervision strategy of the NTCA is brought together in this organisation. The aim of pooling resources is to improve compliance and influence taxpayer behaviour. The responsibilities of the NSO include:

1. Making well-balanced choices on the nationwide approach of certain risks
The NSO gathers and disseminates risk-related knowledge. This central part is highly geared to the automatic selection of (risky) tax returns, based on selection rules and parameters. These selection rules are based on the results of the random audit programme for tax returns. Parameters are used to tune the workload to the available resources.
2. Central coordination of nationwide themes and projects
3. Central coordination of intelligence
4. Developing and implementing new supervision tools such as horizontal monitoring and communication
5. Coordination of measuring effects through random checks and the compliance monitor.
As the NSO is not a directorate or division which is separate from the tax region the NSO also lends support and provides expertise and intelligence to the tax regions.

Local responsibilities focus on influencing taxpayer behaviour on an individual or segment level with regard to registration, filing, payment and reporting. Compliance is strengthened by communication and sharing information, for example during informative visits to starting businesses. Risks of non-compliance are detected by the use of data (and the correlation between them) from the different sorts of tax and information gathered from external sources (intelligence) or the results of the random audit programme. The tax region then uses the 9 steps described in paragraph 5.4 to determine the proper compliance strategy.

9.2 Educating Staff

Building an enhanced relationships with large and medium sizes businesses as well as branch and tax intermediary organizations is not done overnight. It is not just about drawing up agreements on paper but it is also - and perhaps even more so - about the attitudes taken by both parties. The NTCA has found that this new way of working demands a change in culture and behaviour. Building a relation of trust means being able to build and maintain relations and this involves being empathic as well as having listening capacities. But it also means having and exercising decision making capacities; a commercial service level and expediency in making decisions. Building a relation of trust also means having a continuous dialogue, not only on tax matters but also on the process and the behaviour of the parties involved. The central and regional management of the NTCA has put a lot of effort to include the tax inspectors in the development of horizontal monitoring. They are very important in enhancing relationships with businesses and therefore in promoting compliance.

9.3 Developing and Implementing New Tools

The development of new tools such as horizontal monitoring and supervision communication has commenced on a central level in the NTCA. It is very important however to also use the input and creativity of the regional offices in implementing new tools further. That is why "new supervision" has been made part of the business goals of the NTCA.

Good practice

In 2009 30% of the supervision capacity will be allocated to 'new supervision'. The capacity has to be used for acting in advance instead of acting on tax returns, it has to be project based (using the 9 steps), it has to be visible en where possible in cooperation with other authorities. In addition, 5% of capacity is to be used for innovation.

TOPIC 2.1 (The Netherlands)

Based on this goal a number of tax regions have started pilot projects experimenting with new supervision tools. Two examples:

- Organizers of pop-concerts or musical events are not always aware of the tax consequences of their event. This means that every tax matter will have to be discussed after the event has taken place. Also, the A licence from the local council or municipality is needed for organizing the event. When an organizer applies for a licence, he will also receive a letter from the NTCA. This is sent through the municipality. The NTCA joins organizing meetings and makes arrangements on tax matters; this provides certainty in advance to the organizers. After (and sometimes during the event) the event NTCA checks compliance with the agreements. About 100 events are being supervised in this manner.
- A research project on the use of intuition has started. This project involves using intuition of experienced tax inspectors in making decisions on whether or not to conduct an audit. The project was started because scientific research has shown that using intuition leads to better decisions, especially in complex cases. The research project at the NTCA was set up with 50 NTCA- colleagues (experts and non-experts with regard to the income tax act). They all conducted meeting with taxpayers who were randomly selected. Based on this meeting they assessed, on seven set moments, whether the taxpayer's return would contain material faults. So no extensive examination was carried out, but an intuitive judgement was made. In the meantime these tax returns were checked by specialists. This was done to compare intuitive results with the results of the examination. The results: experts in the income tax laws were excellent in judging tax returns intuitively; this judgement was at its best about one week after the meeting; it turned out that intuition works best where extensive experience is combined with subconscious thought.

Case study

Topic 2.1

CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS OF TAXPAYER BEHAVIOR

Lyse Ricard

Assistant Commissioner
Compliance Programs Branch
Canada Revenue Agency

SUMMARY: 1. Executive summary.- 2. Introduction.- 3. The Canadian context for Tax Administration.- 3.1 Our definition of compliance.- 3.2 Our tax compliance model.- 4. Exploring taxpayer attitudes through public opinion research.- 4.1 The CRA annual survey.- 4.2 The CROP 3SC monitor.- 5. Case-level identification of tax compliance risk.- 5.1 Case-level risk assessment processes.- 5.2 The CRA Compliance review process.- 6. Applying compliance research and risk assessment information to promote and expand voluntary compliance.- 6.1 Facilitating compliance.- 6.2 Compliance strategy for contingent non-compliers.- 6.3 Compliance strategy for the non-compliant.- 7. Leveraging our compliance activities.- 7.1 The CRA compliance communications strategy.- 7.2 Voluntary disclosures program (VDP).- 7.3 Our redress process.- 8. Conclusions

1. EXECUTIVE SUMMARY

Canada's tax system is based on voluntary compliance and self-assessment, which, we believe, is the most cost-effective way to administer taxes. Taxpayers are expected to determine what they owe under the law and then pay the correct amount of tax, without our intervention. This means that taxpayers are expected to register as required under the law, file their tax returns on time, report complete and accurate information to determine tax liability and pay all amounts when due. Non-compliance is the failure, for whatever reason, to meet any of these requirements.

TOPIC 2.1 (Canada)

The Canada Revenue Agency (CRA) actively supports the self-assessment system. This includes identifying, preventing or correcting situations of non compliance, particularly those that will have a negative impact on voluntary compliance and that represent the highest risk to Canada's tax base.

Our interventions are based on behaviour-based risk assessment strategies, which begin with an understanding of who is compliant, who is not, and why. We explore Canadians' attitudes and awareness about key compliance topics through research and consultation activities. At the same time, we use computerized risk scoring systems, program results, and other intelligence tools to identify areas of noncompliance in our registration, filing, reporting and payment processes.

We use this information to identify risks by each program area, and then we examine these risks from a horizontal Agency-wide perspective. We prioritize different tax compliance risks based on a number of criteria, including the number of taxpayers involved, the potential financial impact on the tax base, and the anticipated future trend of the issue (whether or not the issue is growing, remaining the same or declining).

By understanding what compliant and non-compliant taxpayers "look like" through public opinion research, identifying the means or the opportunities they use to "express" their compliant or non-compliant behaviours, and by effectively prioritizing identified risks, the CRA is able to develop both broad-based and targeted strategies designed to maintain and improve voluntary compliance.

Although we realize achieving 100% compliance is not practical, we work to encourage positive behaviours, and to suppress or prevent negative ones, through a compliance strategy that encompasses a range of activities from education and facilitation activities, to targeted and responsible enforcement.

2. INTRODUCTION

The CRA, like many other revenue administrations, faces the challenge of ensuring compliance with tax laws in a large and diverse social, economic and legislative environment. We cannot audit everyone, or verify the information on every single form we collect, nor would we want to. We also realize that it is not practical to expect 100% compliance. Unintentional mistakes will still be made, and some people will do their best to operate outside the tax system. The key to effective tax administration is to distinguish the compliant from the non-compliant taxpayers, understand the underlying factors that influence their behaviour, and then develop customized compliance strategies for each group.

In this paper we will discuss our behaviour-based risk assessment approach. Although we apply and make available the same self-assessment measures, tools and information to all taxpayers, we focus our control activities on the areas of highest risk. In order to orient our examination activities on the basis of taxpayer behaviour, the CRA undertakes three main activities:

1. We explore Canadians' attitudes and awareness about key compliance topics through research and consultation activities;
2. We identify areas of noncompliance in our registration, filing, reporting and payment processes. We use this information to develop "risk profiles" that help us evaluate compliance in a large volume of taxpayer information through our pre-assessment and post-assessment processes; and
3. We use the results of research, consultation and direct observations to develop our broad-based compliance approach, to assess our compliance priorities and to develop customized strategies to promote and improve voluntary compliance.

Furthermore, we leverage our compliance approach through a comprehensive communication strategy, our voluntary disclosure and taxpayer redress programs.

Accordingly, in this paper we will discuss the main activities that underpin our behaviour-based risk assessment approach.

3. THE CANADIAN CONTEXT FOR TAX ADMINISTRATION

Canada is a large country that spans some 7,200 kilometers from east to west across 6 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. With a population of 33,212,696 people and a population density of 3.2/km², it is one of the least densely inhabited yet one of the most prosperous countries in the world.

Canada collects taxes through a self-assessment system. This system is based mainly on voluntary compliance, which in turn is based on mutual responsibility. Individuals, corporations, and trusts that are obliged to pay tax in Canada are expected to meet their responsibilities under the law. The CRA has a responsibility to maintain public confidence in the fairness and integrity of the tax system. This means providing ample support to those who wish to comply with the law, while taking appropriate measures to identify and deal with cases of non compliance.

As the principal tax administrator for the Government of Canada, our primary responsibility is to protect Canada's revenue base. In 2007-2008, we collected almost \$372 billion on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments.

In order to do this, we need tools to explore and measure tax compliance attitudes and behaviours and to identify the opportunities the intentionally non-compliant use to avoid their tax obligations. We can use this information to focus our resources and our activities to achieve better results. Our behaviour-based risk assessment strategy involves identifying and exploring different areas of non-compliance, determining who is non-compliant and why, learning about the opportunities used to facilitate non-compliance, and determining which areas of non-compliance pose the greatest current and future risks to our tax base.

3.1 Our Definition of Compliance

The first step to achieving our goals is to define the term "tax compliance". All areas within the tax administration must be aware of this definition and how their activities contribute to maintaining and improving overall tax compliance in the Canadian population. Similarly, the public must be aware of what is expected of them.

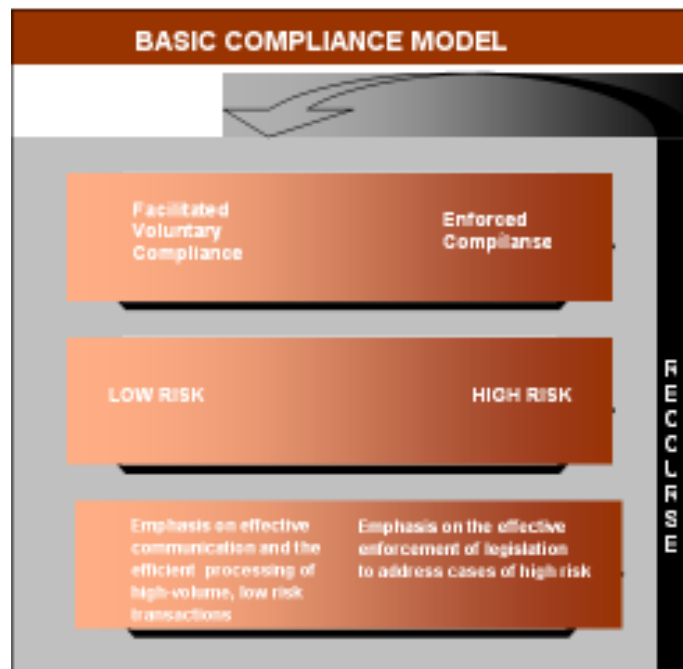
CRA's definition of compliance

Compliance with tax laws in Canada means registering when required, filing returns on time, reporting complete and accurate information to determine tax liability, and paying all amounts owing when due. Non-compliance occurs when any of these obligations are not met, for whatever reason.

We recognize that achieving total compliance is not a practical expectation. Honest mistakes on forms and differences in interpretation or application of complex tax laws are to be expected. As well, it is realistic to expect that there will be a small minority within the population who will operate outside the public interest and choose not to comply with the law.

3.2 Our Tax Compliance Model

Informed by our research and risk assessment activities, our service and enforcement programs can be considered as a series of points along a continuum that include prevention and detection measures, facilitated voluntary compliance, and enforced compliance, all supported by an effective recourse capacity.



Our compliance model represents a graduated approach, where all taxpayers are provided with assistance to reinforce compliant behaviour (see left side of the model) while repeated and intentional non-compliance is addressed through strong enforcement actions (see right side of the model). The initial assumption by the CRA is that citizens want to be compliant. It is only when there is an indication of non-compliance that citizens are subject to greater scrutiny by the CRA.

Although non-compliance incidents are detected and addressed across our registration, filing, reporting and payment processes, the underlying reasons behind the non-compliance are not always evident solely from examining program results.

Accordingly, the public opinion research we conduct allows us to explore the underlying motivations and influencing factors for the compliant and the non-compliant alike. We use this information to help assess risk in the population and to inform the development of custom-made strategies for taxpayers with similar compliance characteristics.

4. EXPLORING TAXPAYER ATTITUDES THROUGH PUBLIC OPINION RESEARCH

The CRA recognizes the importance of both research and consultation activities to the exploration of Canadians' attitudes and awareness of key compliance issues.

The CRA participates in two major surveys that monitor awareness of tax compliance issues, perceptions about the CRA as well as general tax compliance attitudes in the Canadian population:

- The CRA Annual Survey assesses attitudes towards the CRA and satisfaction with aspects of specific programs; and
- The "CROP 3SC" report on socio-cultural change in Canada and its implications for businesses and institutions is provided by a private sector, syndicated research and consulting firm. CRA, in consultation with the provinces and territories of Canada, developed a series of questions specific to tax compliance issues to be included in the annual CROP 3SC survey.¹

4.1 The CRA Annual Survey

The CRA Annual Survey is a public opinion research tool designed to measure and track high level indicators. The survey:

- Collects Canadians' perceptions of the CRA, its programs and services;
- Provides a yearly snapshot of key public opinion indicators;
- Allows for measurement of longer-term trends; and
- Identifies areas where further research would be beneficial.

Survey results are analysed to determine what influences or "drives" taxpayers' general opinion of the CRA, particularly those factors over which it can exert some influence. For example, while it may be possible for the CRA to strengthen public impressions of the efficiency of its operations, this may not change their views about the current level of taxation.²

Analysis of the CRA survey results show that perceptions of CRA corporate values are influencing taxpayers' overall opinion of the CRA. CRA values (especially the value pertaining to efficiency) are factors the CRA can influence through its policies, programs and communications. Improvements in efficiency can strengthen the CRA's corporate image among Canadians.

¹ "CROP 3SC" stands for *Système Cofremca de Suivi des Courants Socio-Culturels*.

² The Department of Finance is responsible for tax policy.

4.2 The CROP 3SC Monitor

The 3SC is based on the annual input from over 2,600 Canadians 15+ years of age who complete the in-home 3SC survey questionnaire under the supervision of a professional interviewer from CROP. The main part of the survey has been conducted since 1993. A federal-provincial working group - the Federal Provincial Territorial Underground Economy Working Group - added thirty compliance questions in 2002. So far, 2002, 2003 and 2005 data is available, and more iterations of the study are planned for the future. The power of this survey lies in the ability to analyze taxpayer responses to tax compliance questions against their socio-cultural characteristics and trends revealed through the core questions and values measured.

This representative survey also helps us monitor shifts in public expectations, attitudes, and behaviour, which are all trends that can have implications for tax administrations.

The CROP 3SC research findings clearly demonstrate that Canadian taxpayers are not neatly divided into two groups: those who cheat and those who do not and will not. Instead, six distinct segments of taxpayers were identified, each with a unique motivational posture towards compliance. The CRA grouped the six segments described below, based on the degree of their members' ambivalence towards non-compliance, to come up with three broad groups: compliers (representing 59% of the population in 2005), contingent non compliers (33% of the population in 2005) and self-declared non-compliers (8% of the population in 2005).

		%2002	%2003	%2005
Compliers	Altruistic Compliers	30	33	33
	Deferent Compliers	27	25	26
Contingent Non-Compliers	Pseudo Compliers	11	11	12
	Situational Non-Compliers	13	14	13
	Potential Non-Compliers	11	10	8
Non-Compliers	Rebels	8	7	8

As discussed further in Section 6 of this paper, Canada has been using the behavioural and motivational information identified in the survey results to develop tailored communication and enforcement strategies intended to maximize voluntary compliance within each of the three main segments.

The following is a brief description of the six population segments within each of the CRA's three broad groups.³

4.2.1 Compliant Taxpayers

According to the CROP 3SC Monitor results, there are two kinds of compliant taxpayers: Altruistic Compliers and Deferent Compliers. The CRA has combined these two segments into the "Compliers".

Altruistic Compliers

Altruistic Compliers represent 30% of the Canadian population. Demographically, they tend to be over-represented among older women (55 years old and over), with lower levels of education (high school or less).

As the name suggests, the members of this group are strongly opposed to tax cheating. In fact, not only do they oppose tax cheating on principle, but they are also resistant to any propositions that might otherwise be thought to help them to rationalize non-compliance. This segment of the population is very engaged socially, and clearly sees the benefits to be derived from greater government involvement in society.

In comparison to the general population, Altruistic Compliers score very high on the value of "everyday ethics", they do not value or support civil disobedience, and they seem to be very risk averse.

Deferent Compliers

Deferent Compliers represent about 27% of the population in Canada. Similar to the Altruistic Compliers, Deferent Compliers oppose tax cheating on principle and are driven by a very strong sense of everyday ethics to oppose non-compliance. They also score significantly lower on "civil disobedience" than the general population and are quite risk averse. Demographically, Deferent Compliers also tend to be women, but their age and education are similar to the general population.

Unlike the Altruistic Compliers, Deferent Compliers do not directly link their compliance with the essential services that taxes buy, nor with the level playing field created when everyone complies. Instead, their socio-cultural profile indicates that they would defer to the law quite simply because it is the law.

³ Description of compliance segments were taken from Meyerovich, Roman, *Compliance, Tax Evasion and Social Change in Canada in 2002: 3SC Survey Findings and Implications*, June 2004, and are valid for the 2003 and the 2005 iterations of the survey.

4.2.2 Contingent Non-compliers

The Pseudo-Compliers, Situational Non-Compliers and Potential Non-compliers make up about a third of the Canadian population. Due to the motivational postures of these groups towards tax compliance, the CRA has combined these groups into the "Contingent Non-compliers".

Pseudo-Compliers

The Pseudo-Complier segment represents about 11% of the Canadian population. They do not think that cheating on taxes is acceptable and they even claim to recognize the negative effect their own cheating would have on other taxpayers. Even so, they do not think that their noncompliance would contribute to the decline in the quality of essential services, nor do they perceive cheating as being particularly risky.

Situational non-compliers

Situational non-compliers represent 13% of the population. Compared to the average, proportionally more of this group are university graduates and represent households with \$60,000 or more in annual income.

On the one hand, members of this group claim to be opposed to tax cheating, and they are more or less aware of the detrimental effects of tax cheating on society. On the other hand, a majority of Situational Non-Compliers consider that it is acceptable to cheat now and in the future, and claim to having done so when given the opportunity, notably where cash transactions were involved. Situational Non-Compliers score 43% lower on "everyday ethics"⁴ than the general population.

Potential Non-Compliers

Potential Non-Compliers tend to be younger males (15-34 years old), less educated (high school education or less), and with the household income not much different than that of the general population. Unlike Pseudo-Compliers and Situational Non-Compliers, Potential Non-Compliers (who represent 11% of the Canadian population) are characterized by their greater readiness to accept the idea of tax cheating and rationalizations in support of this position. For example, they point to government waste and lack of services as their justification for possible tax cheating. Unlike Situational Non-Compliers, Potential Non-Compliers claim not to have cheated in the past,

⁴ The socio-cultural value "everyday ethics" has been constructed by measuring individuals' responses to situations where "a person sees a way of turning a situation to his advantage at the expense of another person, institution or company".

but like Situational Non-Compliers, they are willing to do so in the future. In fact, the main barrier preventing them from cheating is a perceived lack of opportunity.

4.2.3 The Non-Compliant

The most non-compliant group in the Canadian population are known as the "Rebels". Demographically, Rebels are over-represented among younger, blue-collar men (15-34 years of age), with a household income of at least \$40,000. Unlike the preceding groups, the majority of Rebels claim it is acceptable to cheat, claiming to having done so in the past, and plan to do so in the future. What distinguishes Rebels from the other segments is the consistency of their responses and the intensity of the negative socio-cultural values that they articulate. The Rebels socio-cultural profile resembles that of Potential Non-Compliers. However, unlike Potential Compliers, the majority of Rebels openly admit to tax cheating.

5. CASE-LEVEL IDENTIFICATION OF TAX COMPLIANCE RISK

Although the CRA monitors trends in compliance attitudes and awareness in the overall Canadian population, the CRA Annual survey and the CROP 3SC Monitor do not identify individual cases of non-compliance. Similarly, external consultation usually provides only general information about possible risk issues and potential solutions.

Case-level risk assessment allows the CRA to select the right taxpayer for audit action, so we do not waste our time and resources, and we don't waste taxpayer's time and money. In addition, we do not want a misguided audit action to inadvertently cause a negative effect on future compliance attitudes. Case-level evidence of non-compliance is gathered through our various programs and is analysed to identify objective criteria that will allow us to orient examination according to the demonstrated registration, filing, reporting and/or payment non-compliant behaviour in a given period. Subsequently, this information is used to develop risk profiles and screening criteria to identify and prioritize risk in the national population and is applied to many of our pre and post assessment processes.

5.1 Case-level risk Assessment Processes

The CRA has a wide variety of prevention and detection measures in place that function as checks and balances for achieving registration, filing, reporting and payment compliance. These measures range from source deductions and information slip matching to test checks, audits and criminal investigations that can lead to prosecution.



Computerized crosschecks, document matching, risk assessment systems and various surveys and test checks all support the detection of non-compliance and the establishment of risk profiles to guide the selection of cases for verification, audit and enforcement action.

National-level risk identification and assessment processes are incorporated into several tax compliance areas at the CRA, such as:

- Business registration;
- Identifying non-filers and non-registrants;
- Tax return processing;
- Post-processing examination, audit or investigations; and
- Tax collection.

5.1.1 Pre-assessment Reviews

Despite the convenience and compliance benefits that third-party reporting provides, a risk remains that taxpayers will make errors on their tax returns, choose to under-report income, or overstate deductions or tax credits. Once tax returns are filed, we conduct pre-assessment reviews based on a risk-scoring approach to select returns for detailed review.

Through our Confidence Validity Program, we conduct a pre-assessment review of various deductions and credits and correct returns before a notice of assessment is issued. In 2007-2008 we identified an average amount of \$467 of additional tax assessed per review, for a total of more than \$126 million, an increase of 18% over the previous year.

5.1.2 Post-assessment Reviews

Our post-assessment work involves targeted reviews based on matching programs and random reviews.

Through our matching program, we compare amounts reported by individuals for a wide range of income and deduction items (such as wages and registered pension plan contributions) with the amounts reported on third-party information slips. For the minority of taxpayers who make reporting errors, the matching process allows us to effectively identify and correct these errors.

In 2007-2008, the Personal Income Tax (T1) Matching Program generated additional tax assessments totalling \$573.2 million.

Random reviews are also very important because they help us to reliably detect reporting non-compliance.

Most tax administrations agree that the most meaningful direct evidence on reporting compliance is derived from carefully auditing/verifying a large random sample of tax returns, representative of the entire population.

The CRA's Core Audit Program (CAP) is designed to provide insights on compliance levels, potential risk factors and underlying causes of non-compliance behaviour. It only targets the small and medium business population, including self-employed individuals.

In 2007-2008, the CAP program examined the unincorporated business segment of the small and medium enterprise population. This segment's estimated rate of significant reporting non-compliance (i.e., \$5,000 or more in additional federal tax owing) was 14.6%. This is the first year in which this particular segment has been examined since the CAP program was implemented. As such, this estimate of reporting non-compliance will serve as a baseline against which future examinations of this particular segment will be evaluated.

5.2 The CRA Compliance Review Process

The CRA conducted its first Compliance Review in 2004, and the strategies and action plans from that review continue to guide many of today's activities. The Review activity engaged senior staff at Headquarters and in the Regions to examine the key priorities and the greatest risks to the tax base from an Agency wide perspective.

The Compliance Review process involved the following key steps;

- Create an inventory of all material compliance issues from across all programs in the Agency;
- Collect data on the size and characteristics of each issue for the purpose of risk assessment;
- Assess each of the issues against pre-determined risk criteria (discussed below);
- Prioritize the compliance issues from an Agency perspective in terms of the highest risks to Canada's tax base;
- Obtain senior management concurrence of the proposed highest priorities; and,
- Develop or refresh strategies and action plans to address each of the identified priorities.

The four risk criteria used to rank each compliance issue include:

- Gauge the public profile of the issue and its impact on the self-assessment system;
- Assess the financial impact;
- Determine the scope of the issue, in terms of how many taxpayers could be involved; and
- Identify the risk trend of the issue, in terms of whether it was growing or declining.

The 2004 review identified four compliance priorities from among the 30 issues identified: Aggressive Tax Planning, GST/HST High-Risk Compliance, the Underground Economy, and Non-filers/ Non-registrants & Revenue Collections. Strategies and action plans for each of the priorities were subsequently developed and work continues to be carried out.

Periodic compliance reviews conducted every three to four years are essential to confirming existing compliance risks, and ensuring that we consider new and emerging risks. By identifying and prioritizing the many compliance challenges we face, we are better able to focus our limited resources toward addressing the highest priority risk areas. The CRA is currently in the process of conducting its second Compliance Review.

6. APPLYING COMPLIANCE RESEARCH AND RISK ASSESSMENT INFORMATION TO PROMOTE AND EXPAND VOLUNTARY COMPLIANCE

The CRA uses the results of research and consultation activities, as well as case-level risk-assessment information, to determine different types of taxpayer behaviour and to develop and orient examination activities accordingly.

6.1 Facilitating Compliance

Our goal is to maximize voluntary compliance by assisting taxpayers in meeting their tax obligations. We have a number of service offerings to assist taxpayers to register, file, report and pay their taxes such as providing electronic filing and payment options designed to reduce administrative burden. We make effective use of our risk assessment techniques to generally leave compliant taxpayers out of our examination and enforcement activities. In cases where the taxpayer initiates contact, we provide them with timely, accurate, and accessible information, delivered through our telephone enquiry services, our "in-person" services at our Tax Services Offices and our Web site.

We also proactively reach out to communities and help ensure that filing and reporting is as straightforward and convenient as possible.

6.1.1 Risk Assessment Activities that Improve Service Delivery: The Scientific Research and Experimental Development (SR&ED) Process Realignment

The Scientific Research and Experimental Development (SR&ED) program is a federal tax incentive program, administered by the CRA that encourages Canadian businesses of all sizes, and in all sectors to conduct research and development (R&D) in Canada. It is the largest single source of federal government support for industrial R&D.

The SR&ED program gives claimants cash refunds and/or tax credits for their expenditures on eligible R&D work done in Canada.

The CRA recently improved the timeliness of its claims processing by incorporating front-end screening, pre-review work and a rules-based automated risk assessment system that examines the completeness and the validity of the claims.

The automated risk assessment process was developed in cooperation with local staff, regions, program experts and the system was tested to the

satisfaction of CRA employees and claimants. Employees were able to spend less time on low risk claims, and focus on the review of higher risk claims, with an overall effect of significantly reducing claim processing time.

The SR&ED process realignment resulted in a reduction of the average time to screen an initial claim from 108 days to 10 days, while the average time to review a claim was reduced from 313 days to 250 days.

6.1.2 Outreach and Education Programs

CRA's outreach and education programs are important elements of Canada's approach to tax compliance. They support voluntary compliance by informing the public about the CRA's programs and services. Education ensures that taxpayers have the knowledge to meet their obligations without direct intervention.

- The Teaching Taxes Program introduces high school and post-secondary students across Canada to Canada's tax system. It teaches them how to prepare a basic income tax return.
- The Learning About Taxes Program is a free online course that provides basic information on Canada's income tax system.
- The Community Volunteer Income Tax Program helps eligible individuals who are unable to complete their returns by themselves and are unable to pay for assistance. The program works with trained volunteers who are associated with community organizations that help taxpayers prepare their income tax and benefit returns.

Our outreach activities increase our visibility in the community. In 2007-2008, we conducted 1,287 outreach events, involving more than 58,000 participants, to provide information on benefits and entitlements to individuals such as current and potential child benefit recipients, students, and newcomers to Canada. We also presented approximately 1,200 outreach events for businesses-involving close to 30,000 participants-to support the business community by facilitating compliance for such groups as small businesses, GST/HST registrants, and potential business e-service users.

6.2 Compliance Strategy for Contingent Non-compliers

As previously noted, the main barriers to non-compliance for contingent non-compliers involve their perception and understanding of risk and a lack of opportunity. The general compliance strategy for this group is to increase

their understanding of risk by communicating the full measure of consequences for getting caught cheating.

6.2.1 Communication of Consequences for Tax Non-Compliance

Public opinion research conducted in 2007 about the perception of tax cheating and the impact of compliance communications revealed some interesting findings. Participants were often not aware of CRA activities, and they also were not aware of some of the more severe consequences associated with getting caught for tax cheating. In addition to providing direction for the CRA communications strategy, research results have been used to develop key messages in news releases to the public as well as the ones we display on our website. We would particularly like to emphasize the fact that being accused of tax evasion may result in imprisonment or the establishment of criminal record.

6.2.2 Addressing Legislative Opportunities for Non-Compliance

Changes in tax policy often lead to the creation of new tax laws or legislative amendments. Some of these legislative changes may provide the opportunity for aggressive interpretations of the law that are not intended in the legislation. The CRA works with the Department of Finance to address these situations. When new legislation or an amendment is proposed, the CRA analyses the provisions for administrative feasibility, taxpayer burden, enforcement considerations, administrative efficiency, simplicity and clarity. The CRA works to ensure systems, procedures, forms and guides are updated to reflect legislative amendments, and that proposed amendments are communicated to Agency employees and the public.

6.3 Compliance Strategy for the Non-Compliant

According to research findings, the "rebel" is not affected by communication or education strategies developed to promote compliance. They have already formed the intent to be non-compliant and, in many cases, they proactively explore and create opportunities to cheat. If they are salaried workers, they may moonlight in the home renovations sector and not report the self-employment income. They may create false invoices to increase their claimed expenses. Possibly, they have never filed a tax return. The CRA's main tool to protect the tax base from this population segment is to improve the identification of high risk taxpayers, prioritize the risks, and apply swift and firm enforcement action accordingly.

6.3.1 Criminal Investigations

For those involved in tax evasion, the CRA enforces criminal sanctions. Prosecutions are a fundamental part of our enforcement presence and are essential to ensure a level playing field for all taxpayers and businesses.

In 2007-2008, there were 299 convictions for tax evasion. Courts across Canada imposed close to \$27.5 million in fines. In addition, offenders were sentenced to a total of more than 44 years in prison. We obtained convictions in 96% of the cases prosecuted.

6.3.2 Special Enforcement Program

Our Special Enforcement Program conducts audits and undertakes other civil enforcement actions against individuals and businesses who are known or suspected of deriving income from illegal activities.

The CRA works closely with the Royal Canadian Mounted Police (RCMP), other law enforcement agencies, and the Financial Transaction and Reports Analysis Centre (FINTRAC) of Canada to combat money laundering, terrorist financing activities, and the evasion of taxes or duties.

In 2007-2008, we completed more than 1,100 audits in the Special Enforcement program involving taxpayers suspected of earning income from illegal activities. These audits identified \$82.2 million in additional taxes owing.

7. Leveraging our Compliance Activities

In addition to orienting our examination activities with regard to taxpayer behaviour, we further encourage compliance through mechanisms such as our Compliance Communications Strategy, the Voluntary Disclosures Program, and our redress process.

7.1 The CRA Compliance Communications Strategy

One of the key findings from research to understand public perceptions on tax compliance issues is that the public wants to hear about what the CRA is doing to combat tax evasion and other types of non-compliance issues, such as the underground economy. They want to see evidence that the CRA is addressing high risk taxpayers, no matter who they are. They also want to see concrete evidence that the CRA is getting results.

A strong and integrated Compliance Communications Strategy can influence compliance behaviour. The implementation plan for the communications strategy includes a wide range of activities, such as more media interviews, news releases and tax alerts.

7.2 Voluntary Disclosures Program (VDP)

The Voluntary Disclosures Program (VDP) is aimed at providing taxpayers with an opportunity to come forward to correct past omissions and correct deficiencies, thereby becoming compliant with their legal obligations.

In 2007-2008, we implemented changes to aid taxpayers in making a disclosure, improve the VDP administrative process and to provide outreach to tax professionals. Results show that more than 70% of disclosures received in 2007-2008 were made through tax professionals.

7.3 Our Redress Process

The availability of a redress process is integral to our tax administration. To earn and maintain the trust of taxpayers, the redress process must be fair and be seen to be fair. Taxpayers who feel that they have been treated fairly have increased confidence in their dealings with us.

A basic aspect of fairness is ensuring that taxpayers are informed of their rights to redress and how to exercise them. Making sure that the redress process is timely, accessible, and consistent contributes to its actual and perceived fairness. Taxpayers can file a Notice of Objection, which will result in an administrative review by the independent and impartial Appeals Branch within the CRA and, if not satisfied, can also appeal their case to the courts.

8. CONCLUSIONS

In this paper we discussed some of the behaviour-based risk assessment activities we conduct to develop broad based and targeted compliance strategies.

While we provide the same self-assessment rules and measures to all taxpayers, regardless of differences in their behaviour, we focus our examination activities on the areas of highest risk.

Risk identification and assessment is a complex and evolving activity. The instruments and the processes we use to collect and evaluate risk information are based on indirect as well as direct information.

Indirect information, such as public opinion research on attitudes and awareness about key compliance topics, provide us with useful information about the underlying motivation and influencing factors that drive compliance behaviour.

We collect and analyse direct information sent to us by citizens on their tax forms to develop a concrete picture of non-compliance opportunities.

We use the results of research, consultation and direct observations of program results to develop our broad-based compliance approach, to assess our compliance priorities and to develop customized strategies to promote and improve voluntary compliance, while identifying and addressing areas of non compliance.

Case study

Topic 2.2

INCENTIVE AND COMPLIANCE FACILITATION MECHANISMS BASED ON THE BEHAVIOR OF TAXPAYERS

Frank Ng

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

SUMMARY: I. Introduction.- II. Overview of the IRS Large and Mid-Size Business Division.- III. LMSB Vision.- IV. Traditional post-filing examinations.- V. Improving the Post-filing examination process.- IV. Real time and pre-filing issue resolution.- V. Improving the post-filing examination process.- VI. Real time and pre-filing issue resolution.- VII. Other IRS efforts at taxpayer transparency and improved reporting.- VIII. Key measures.- IX. Tax Administration impacts in an economic downturn.- X. Moving forward - taxpayer transparency and risk management.

I. INTRODUCTION

Large corporate taxpayers seek certainty and place a high value on the ability to finalize their tax positions quickly. This helps them to achieve predictability of cash flow and allows for better assessment and public reporting of the value of their business. In recent years, the Large and Mid-Size Business ("LMSB") Division of the Internal Revenue Service ("IRS") has implemented a number of innovative examination processes in an attempt to provide timely tax certainty to corporate taxpayers. Taxpayers have an incentive to work with the IRS to expedite the audit process so that they can get current and can focus on their business with less tax exposure. At the same time, the IRS benefits from real-time, reliable information, which allows for more efficient allocation of examination resources in an era of significant technological change and budgetary challenges.

II. OVERVIEW OF THE IRS LARGE AND MID-SIZE BUSINESS DIVISION

LMSB is one of four operating divisions of the IRS. LMSB serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. LMSB taxpayers include the largest corporate employers in the United States. LMSB taxpayers conduct business in an increasingly global environment, routinely dealing with highly intricate legal, accounting, and tax issues. Their tax returns tend to be very complicated and LMSB examinations can take months or years to complete under traditional examination processes. LMSB taxpayers are very influential in shaping legislation and policy both in the United States and globally. They are represented by the most sophisticated and highly-paid tax professionals in the business.

LMSB's business operations are structured to support the IRS goals of improving taxpayer service and enhancing enforcement of the tax laws. Modernizing the agency through its people, processes, and technology is a key strategic approach to reaching the goals. For LMSB, the goal of improving taxpayer service generally means completing audit work more efficiently, maintaining high-quality measurement standards, and attempting to reduce the administrative burden placed on taxpayers to the greatest extent possible. The goal of enhancing enforcement means addressing areas of significant compliance risk through examinations and other methods and encouraging non-compliant taxpayers to meet their tax obligations. Modernization means strengthening the workforce and implementing efficient tools, systems, and processes LMSB and taxpayers use to perform their functions within the tax system.

III. LMSB VISION

When LMSB stood up in 2000 as part of the restructured IRS, our business processes were firmly rooted in tradition. Compliance activity between large and mid-size business taxpayers and IRS was, essentially, a function of performing in-depth, time-consuming, labor-intensive, paper-bound examinations that typically started a few years after filing and took about five years to complete, sometimes in an adversarial environment. This approach may have worked in the past, but the corporate tax environment began changing much faster than our internal capabilities. Tax law complexity, rapid globalization of business, and increased competitiveness lead to creative and aggressive tax structures and transactions that forced us, other regulatory agencies and the tax community to reassess our approaches to tax compliance and administration. Our processes did not adequately engage our stakeholders in compliance resolution, and our processes to identify tax compliance trends and high risk issues were dated and lacked alignment to financial statement accounting requirements.

Today, we are building a foundation that will result in our ability to better service our taxpayers and conduct our compliance improvement activities more effectively and timely. We have a comprehensive "concept of operations" plan in place that identifies the capabilities and business processes we need to effectively administer large business tax administration in an increasingly complex regulatory and global business environment. There is correlation between the attributes of the future state LMSB is moving towards and what our taxpayers tell us, through research, is important to them. The vision for LMSB is a tax administration that provides:

- Taxpayer transparency and certainty to improve tax compliance. It is important to tax administration that taxpayers' positions, transactions and underlying accounting be as transparent as possible. At the same time, taxpayers have a need for certainty, an assurance that they are in compliance.
- A highly skilled and engaged workforce and leadership team capable of achieving our tax administration goals.
- Technology that enables business and workforce productivity, with information that supports informed decisions and actions.
- Issue focused compliance approaches to maximize resource effectiveness and provide resolution consistency.
- Effective relationships with taxpayers and stakeholders to enable informed business decisions. Engaging taxpayers, both at the corporate level and at the front line case level, promotes understanding, agreement, and ultimately results. Mutual understanding of issues and solutions is in the best interest of both tax administrator and taxpayer.
- Capability to quickly identify emerging trends and issues, and resolve issues quickly through enhanced training, knowledge retention, and issue management. Tax administration functions in a very dynamic environment. What tax administration confronts next year is more than likely to be different from what is confronted today, or last year. LMSB systems and processes are changing to enable our people to adapt quickly to deal with those changes.

IV. TRADITIONAL POST-FILING EXAMINATIONS

Post-filing tax return examinations are the traditional method used to promote higher levels of taxpayer compliance. Limited numbers of examination personnel are available to examine tax returns, however, and not all tax returns can be examined by the IRS. The IRS therefore uses computer-based techniques and manual review to classify and select returns for examination with the greatest potential for tax change and revenue yield.¹

The traditional post-filing examination process requires the performance of an in-depth, often time-consuming and labor-intensive taxpayer audit, which sometimes takes place in an adversarial environment. During a post-filing examination, taxpayers are often asked to produce records and information that will help the IRS understand business decisions from prior years. Taxpayers are statutorily required to maintain and keep books of account and records sufficient to establish income, deductions, credits, and other matters reportable on their income tax returns. IRC § 6001. Tax examiners and revenue agents are statutorily authorized to examine any books, papers, records, or other data that are relevant or material to the audit of a tax return, and summon any person liable for any tax in question or any person having custody of books or other records relating to a return under examination to appear and produce documents and give testimony relating to the examination of the return. IRC § 7602.

As time passes, though, a taxpayer's personnel responsible for filing the return may have left its employment, records may be unavailable, and it may be increasingly difficult for taxpayers to provide requested information. This

¹ For examination purposes, LMSB taxpayers are divided into two groups; Coordinated Industry Case ("CIC") taxpayers and Industry Case ("IC") taxpayers. CIC taxpayers are very large, complex taxpayers seen as requiring centralized audit management and coordination. They are essentially subject to constant audit, with IRS personnel specifically designated to their cases over a long period of time. CIC taxpayers are determined on the basis of the application of pointing system, based on a variety of characteristics including, gross assets, gross receipts, number of entities, total related transactions, and total foreign assets. A team manager is assigned to oversee the CIC audit. Various specialists are available to assist the team manager, including international specialists, computer audit specialists, financial product specialists, employment tax specialists, engineers, and economists. If a primary taxpayer qualifies as a CIC taxpayer, all of its effectively controlled entities, plus those that are unrelated but associated with the taxpayers in activities having significant tax consequences will be examined. IC taxpayers are those that do not meet the criteria to be classified as CIC taxpayers. Some may be as large and complex as a CIC taxpayer, but they are not necessarily subject to constant audit. In Fiscal Year 2007, revenue collected from LMSB compliance audit activities totaled \$14.2 billion. The overall audit coverage rate was 16.8 percent for all LMSB corporations, ranging from 15 percent for \$10-50 million asset companies to 62.9 percent for \$5-20 billion asset companies. For those over \$20 billion, the exam coverage was 100 percent.

can complicate an audit for taxpayers and the IRS, extending the period of the examination and resource requirements on both sides. If issues remain unresolved, taxpayers may be required by financial accounting rules to maintain tax reserves on their books, which can often affect their financial statements, public reporting, and even share price.

LMSB's annual customer surveys regularly showed that its taxpayer base desired ways to reduce the administrative burden of the examination process, including the length of the audit and the length of the process, as well as a way to achieve earlier certainty with regard to audit issues.

In an effort to address these concerns, LMSB has introduced a variety of tax administration initiatives that focus on improving the identification and timely resolution of audit issues for both the IRS and taxpayers. The goals of these initiatives have been to reduce audit cycle time, improve audit currency, reduce taxpayer burden, and improve overall efficiency. The overriding philosophy of these initiatives has been the idea that bringing significant issues to the forefront of an examination quickly and efficiently, with mutual cooperation by the IRS and corporate taxpayers is good for both taxpayers and the tax administrator.

V. IMPROVING THE POST-FILING EXAMINATION PROCESS

A. Issue Focused Examination Process

In recent years, LMSB has improved the traditional examination process, implementing an Issue Focus approach to compliance examinations under which it classifies significant issues based on a tiering system associated with compliance risk. Under this process, the IRS focuses on high-risk and significant issues in an effort to improve tax compliance and leverage resources. Compliance issues are identified by the IRS through examinations, Schedule M-3 reviews, and other sources. Analysis of these issues determines non-compliance risk and priority. LMSB executives evaluate the issues to determine whether they rise to a high priority level.

High-priority issues are assigned to an issue management team, headed by an IRS executive, to develop an overall compliance strategy. The goal of this approach is to get consistency and efficiency in resolving the tiered issues. Earlier identification and analysis of these significant issues and affected taxpayers enable the IRS to address non-compliance more quickly, which improves currency for taxpayers and audit cycle time for the IRS.

B. Joint Audit Planning Process

At the outset of a tax examination the IRS examination team engages the taxpayer in a joint audit planning process to mutually develop agreement and plan for the conduct of the examination. The process promotes a timely and orderly tax examination, which benefits both parties, by establishing agreement on roles and responsibilities, accountability, timeframes, and methods for fact finding, issue development and resolution. For IRS, this is a particularly effective approach to managing the resources needed for a tax examination, where the IRS examination case manager must have a clear understanding of the specialist resources needed, such as engineers, computer audit specialists and technical advisors. For the taxpayer, the process also maximizes resource and time efficiency, as well as promoting certainty. Throughout the course of the examination the joint audit plan is continually monitored and updated to both reflect and best ensure an efficient examination in light of all available information.

C. Accelerated Issue Resolution

Even before LMSB was established in 2000, the IRS had already begun to work toward the policy goals of examination currency and significant issue identification that are now at the forefront of all of LMSB's initiatives. In 1994, the IRS established the Accelerated Issue Resolution ("AIR") program in Revenue Procedure 94-67. AIR was an examination process designed to enhance the resolution of the same or similar issues arising from an examination of a CIC taxpayer from one or more tax periods to other tax periods. Extending the examination of issues to more current tax periods was seen as allowing the audit team to examine taxpayer books and records that were more contemporary and more accessible than might have otherwise been the case.

D. Limited Issue Focus Examination

In 2002, LMSB introduced the Limited Issue Focus Examination ("LIFE") process as an alternative to the traditional, full-scope examination process. Under LIFE, LMSB uses detailed risk analysis and materiality considerations (including dollar value, permanency, and timing) to limit the scope of an examination to specific issues determined to be material in the analysis. The LIFE process is far more streamlined and issue-focused than a traditional full-scope examination. Its cornerstone is a Memorandum of Understanding ("MOU"), in which the taxpayer and LMSB must commit to actions regarding key aspects of the process. The LIFE MOU identifies issues to be examined and materiality thresholds to govern any expansion in the scope of the examination and requires cooperation between LMSB and the taxpayer to complete an examination. If a taxpayer does not meet its MOU commitments

on the limited issues, the LIFE process may be terminated and the scope of the examination expanded to include large, unusual, and questionable items identified in the LIFE risk analysis.

The LIFE process is not automatically available to a taxpayer, although a taxpayer can suggest a LIFE to its revenue agent. Ultimately, the examination Team Manager decides whether to make the LIFE process available to a taxpayer. When a taxpayer has indicated a willingness to participate in the examination and cooperate with the IRS, an exam team will likely offer or agree to a LIFE.

E. Fast Track Settlement

In 2001, the IRS implemented an LMSB Fast Track Dispute Resolution Pilot Program, jointly supported by LMSB and the IRS Office of Appeals.

The IRS Office of Appeals ("Appeals") operates independently from the other IRS functions and has the "exclusive and final authority" to determine liability for most taxes. Appeals is delegated this authority by the Commissioner of the IRS. Appeals serves as the appellate forum of last resort within the IRS, with the objective of settling tax controversies without litigation on a basis that is fair and impartial to both the government and the taxpayer. Appeals officers consider taxpayer appeals, hold conferences, and negotiate settlements. If a taxpayer does not settle its case in Appeals, the next step would be litigation.

The Fast Track Settlement ("FTS") program provides LMSB taxpayers with a way to resolve audit issues early and while LMSB retains jurisdiction of the case, by utilizing the settlement authority and mediation skills of the Office of Appeals. During the course of an examination, LMSB taxpayers can request early resolution for a specific issue or issues through the FTS program. The taxpayer and representatives from LMSB work to achieve a mutually acceptable resolution to tax issue(s) by meeting with an Appeals Officer who serves as a neutral party and functions as a mediator to guide LMSB and the taxpayer to a mutually acceptable resolution for each issue. The Appeals Officer serving as the mediator uses his or her delegated settlement authority to implement an agreed resolution. Under the FTS program, the Appeals organization may advocate a proposed resolution to the issues, but cannot impose a resolution on either party.

The FTS program was designed to use alternative dispute resolution techniques within LMSB to promote issue resolution at earlier stages and reduce the overall time from return filing to issue resolution. In most cases, the FTS process is complete in less than 90 days. FTS typically reduces the combined LMSB-Appeals process by at least two years.

Beginning in November 2006, LMSB mandated that its examination teams discuss the FTS process and the benefits it can provide during the opening conference of all LMSB examinations. The mandate also requires LMSB examination teams to request the taxpayer's consideration of using FTS at the point it is clear an agreement cannot be reached on a specific issue.

VI. REAL TIME AND PRE-FILING ISSUE RESOLUTION

In addition to the initiatives and new approaches LMSB is implementing improve tax administration in a post-filing environment, LMSB is taking steps to improve tax administration in the pre-filing environment to provide certainty and resolve issues prior to the taxpayer filing the tax return.

A. Pre-filing Agreements

Following LMSB's standup in 2000, the IRS announced the creation of a pilot program known as the Pre-filing Agreement ("PFA") program, which had as its goal the pre-filing resolution of contentious issues arising from completed transactions. See Notice 2000-12.² Under the program, any taxpayer under LMSB's jurisdiction could apply for a PFA on factual issues or issues governed by well-settled law. PFAs can cover the current and up to four future tax years, but the transaction must be complete and the return unfiled at the time of entering the agreement. PFAs may be used to determine appropriate methodology for determining tax consequences affecting future years.

Since the program's inception (through 9/30/08), LMSB has accepted 206 of 306 applications filed and closed 139 with an agreement. The most common issues brought into the program involve worthless stock/bad debts, research credit, cost segregation studies, and the disposition or acquisition of a subsidiary.

In the most recent annual Congressional report on the program, all respondents to a survey conducted at the end of the PFA process said they were satisfied (or very satisfied) with the process; all said they were likely (or very likely) to recommend the PFA process to others. Several taxpayers have completed multiple PFAs.

² *The PFA program was recently made permanent in Revenue Procedure 2009-14.*

B. Industry Issue Resolution

Also in 2000, the IRS announced a pilot program known as the Industry Issue Resolution ("IIR") program. See Notice 2000-65.³ The IIR program's goal was to resolve frequently disputed or burdensome business tax issues that affect a significant number of taxpayers by providing clear guidance, reducing the time and expense associated with resolving issues on a case-by-case basis during tax examinations.

The IIR program is available to all business taxpayers served by LMSB. Business taxpayers, industry associations, and other interested parties may submit issues for resolution at any time. The IRS and Treasury evaluate the requests semi-annually. Factors considered include the appropriateness of the issue for the program and whether the requested guidance promotes sound tax administration.

Once a project is selected for the IIR program it is announced publicly. For each issue selected, an IIR team of IRS and Treasury personnel gather relevant facts from taxpayers or other interested parties affected by the issue. Resolution of an issue is generally through published guidance (typically a revenue ruling or revenue procedure), but may include administrative guidance.

Business tax issues appropriate for the program must have at least two of the following characteristics: (1) the proper tax treatment of a common factual situation is uncertain; (2) the uncertainty results in frequent, and often repetitive, examinations of the same issue; (3) the uncertainty results in taxpayer burden; (4) the issue is significant and impacts a large number of taxpayers, either within an industry or across industry lines; and (5) the issue requires extensive factual development, and an understanding of industry practices and views concerning the issue would assist the IRS in determining the proper tax treatment. The IIR program cannot be used to resolve: (1) issues that involve transactions that lack a bona fide business purpose; (2) transactions with a significant purpose of improperly reducing or avoiding federal taxes; or (3) issues involving transfer pricing or international tax treaties.

There have been 19 completed IIR issues since the program began as a pilot in 2000. Some significant issues that have been resolved through the IIR program include: a conformity election by banks for bad debts (Rev. Rul. 2001-59); an inventory valuation method for re-buildable motor vehicle cores (Rev. Proc. 2003-20); a safe harbor method for treating fiber optic cable

³ The IIR program was formalized and made permanent by Revenue Procedure 2003-36.

(Rev. Proc. 2003-63); health care provider incentive payments (Rev. Proc. 2004-41); and a safe harbor for heavy equipment dealers for use of replacement costs of parts (Rev. Proc. 2006-14).

C. Compliance Assurance Process

In early 2004, LMSB assembled a team of experts to identify opportunities to improve corporate tax administration made possible by enactment of the Sarbanes-Oxley Act of 2002.⁴ Over a period of months, the group conceived of an entirely new compliance approach, dubbed the "Compliance Assurance Process" or CAP, that appeared to offer potential to completely transform corporate tax administration. The CAP model incorporated elements from both the PFA and LIFE programs previously described, but with expanded focus and stringent controls. CAP was introduced in 2005 on a pilot, voluntary basis to 17 corporate taxpayers.

Under CAP, LMSB agents and specialists work with a taxpayer in a cooperative, real-time, pre-filing environment to identify and resolve substantive tax issues affecting the taxpayer's tax liability. Simply put, the goal of CAP is to identify and resolve the taxpayer's compliance issues before the taxpayer files its return, thereby reducing or eliminating the need for a post-filing audit of the return. In theory, this lessens administrative and time burdens for both the taxpayer and Service and enables the Service to use the time saved to improve compliance by examining other taxpayers' returns. In exchange for its increased cooperation and commitment to transparency, the taxpayer gains the possibility of achieving tax certainty sooner than would be possible through traditional post-filing examinations.

CAP requires extensive communication and cooperation between the IRS and participating taxpayers. Early in the CAP cycle, a taxpayer enters into an MOU with the IRS. The MOU outlines the roles and responsibilities for both parties, describes the process that will be followed, including communication and disclosure responsibilities. It also enables the taxpayer and the IRS to jointly establish materiality thresholds that will apply to the CAP review, although the ultimate decision of identifying issues for the compliance review remains within the discretion of the IRS.

Transparency and communication are essential elements of the CAP approach and are emphasized in the MOU. The taxpayer enters CAP with the expectation of having to provide pertinent information to the IRS' lead revenue agent on

³ *The Sarbanes-Oxley Act ("SOX") was a legislative effort to rein in abusive corporate activities through stricter rules for corporate governance, oversight, data integrity, and disclosure for financial reporting purposes.*

the case (account coordinator) relating to the issues and completed transactions under review. In return, the account coordinator is expected to actively partner and communicate with the taxpayer, efficiently manage and coordinate information data requests, and keep the review process moving forward to timely completion. A taxpayer may be removed from CAP for failing to comply with the terms of the MOU.

There is broad, general agreement within LMSB that the CAP approach has been successful. It has resulted in accelerated pre-filing determinations on key issues and assisted in the identification of emerging issues. Time charged on cases has decreased under CAP, while resolution of significant, unagreed issues has accelerated. The number of taxpayers interested in participating in the program continues to increase. From customer service surveys, the IRS has found that over 90 percent of the taxpayers participating in CAP have been satisfied with their experiences, particularly their working relationships with the CAP account coordinators. These indicators compare very favorably to those of traditional examination approaches.

What's more, taxpayer interest in CAP continues to grow. This year, the program admitted 104 taxpayers, and LMSB currently is evaluating options for its future.

CAP sets a very positive example of how LMSB can interact effectively with large corporate taxpayers to focus on the issues of greatest compliance risk and bring tax return certainty to taxpayers more quickly. CAP is a viable option for taxpayers who are willing to engage with the IRS by showing a willingness to meet transparency and disclosure requirements and participate in open dialogue.

D. Similar International Approaches

Outside the United States, programs similar to CAP have begun to be implemented. In Ireland, for example, Irish Revenue's Large Cases Division ("LCD") introduced a similar approach to managing tax compliance, known as the Co-operative Approach to Tax Compliance. Like CAP, the goal of the Irish pilot program was to promote a collaborative, mutually beneficial approach to compliance, facilitate more efficient use of business and government resources, reduce tax uncertainty, and recognize taxpayer openness. Under the program, large-business participants are expected to share knowledge of

⁴ *La Ley Sarbanes-Oxley [Sarbanes-Oxley Act ("SOX")] fue un esfuerzo legislativo para contener actividades abusivas por parte de corporaciones a través de reglas más estrictas con respecto a gobernabilidad corporativa, supervisión, integridad de la información y la divulgación de información para propósitos de reportes financieros.*

their business, business events, and emerging tax risks in real time with the LCD case manager. The LCD case manager works with the large business to focus on the important issues and, where possible, resolve them. Selective revenue checks then occur to assure the LCD case manager that the business is complying with its obligations.

The Netherlands has also put into place a pilot program similar to the CAP program in the United States. The Netherlands Tax and Customs Administration requires a participant company at its executive level to commit itself to full transparency on current tax issues through a "supervision agreement" signed by the company's Chief Financial Officer. In return, the government agrees to provide a binding opinion on each issue expeditiously.

E. Advance Pricing Agreements⁵

Internal Revenue Code (IRC) § 482 provides that the Secretary may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among two or more commonly controlled businesses if necessary to reflect clearly the income of such businesses. Under regulations, the standard to be applied in determining the true taxable income of a controlled business is that of a business dealing at arm's length with an unrelated business. The arm's length standard has also been adopted by the international community and is incorporated into the transfer pricing guidelines issued by the Organization for Economic Cooperation and Development (OECD).⁶ Transfer pricing issues by their nature are highly factual and have traditionally been one of the largest issues identified by the IRS in its audits of multinational corporations. The APA Program is designed to resolve actual or potential transfer pricing disputes in a principled, cooperative manner, as an alternative to the traditional examination process. An APA is a binding contract between the IRS and a taxpayer by which the IRS agrees not to seek a transfer pricing adjustment under IRC § 482 for a covered transaction if the taxpayer files its tax return for a covered year consistent with the agreed transfer pricing method (TPM).

Since 1991, the IRS has offered taxpayers, through the APA Program, the opportunity to reach an agreement in advance of filing a tax return on the appropriate TPM to be applied to related party transactions.

⁵ The content of this section is extracted from "Announcement and Report Concerning Advance Pricing Agreements," issued March 27, 2008 as Announcement 2008-27.

⁶ OECD, "Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrators (1995)

An APA generally combines an agreement between a taxpayer and the IRS on an appropriate TPM for the transactions at issue (Covered Transactions) with an agreement between the U.S. and one or more foreign tax authorities (under the authority of the mutual agreement process of our income tax treaties). With such a "bilateral" APA, the taxpayer ordinarily is assured that the income associated with the Covered Transactions will not be subject to double taxation by both the U.S. and the foreign jurisdiction. It is the policy of the United States to encourage taxpayers that enter the APA Program to seek bilateral or multilateral APAs when competent authority procedures are available with respect to the foreign country or countries involved. However, the IRS may execute an APA with a taxpayer without reaching a competent authority agreement (a "unilateral" APA).

A unilateral APA is an agreement between a taxpayer and the IRS establishing an approved TPM for U.S. tax purposes. A unilateral APA binds the taxpayer and the IRS, but does not prevent foreign tax administrations from taking different positions on the appropriate TPM for a transaction. Should a transaction covered by a unilateral APA be subject to double taxation as the result of an adjustment by a foreign tax administration, the taxpayer may seek relief by requesting that the U.S. Competent Authority consider initiating a mutual agreement proceeding pursuant to an applicable income tax treaty (if any).

When a unilateral APA involves taxpayers operating in a country that is a treaty partner, information relevant to the APA (including a copy of the APA and APA annual reports) may be provided to the treaty partner under normal rules and principles governing the exchange of information under income tax treaties.

VII. OTHER IRS EFFORTS AT TAXPAYER TRANSPARENCY AND IMPROVED REPORTING

In addition to the programs described above, the IRS has put into place other programs designed to promote taxpayer transparency and better reporting. The goal of these programs has been to improve risk assessment of return filings by the IRS, resulting in earlier tax return certainty for taxpayers.

A. Modernized E-Filing

Most corporations have been able to file electronically using the modernized e-file system the Service implemented in early 2004. Beginning with tax years ending on or after December 31, 2005, certain large corporations are now

required to electronically file their returns.⁷ The IRS spent several years collaborating with large corporate taxpayers, practitioners, and software developers to develop systems and rules to facilitate the ability of taxpayers to comply with the electronic filing mandate. Electronic filing of these complex corporate returns is greatly improving the speed and accuracy of tax administration, cutting many months off of the traditional examination process and allowing the IRS to develop sophisticated analytical tools to better select areas of audit inquiry. Taxpayers are benefiting by having return uncertainties resolved more quickly.

B. Schedule M-3

One of LMSB's most significant recent initiatives is the Schedule M-3, also known as the book-to-tax reconciliation. The Schedule M-3 is designed to improve the ability of the IRS to evaluate compliance risk quickly, identify emerging issues and trends, and better select workload, based on that identified compliance risk.

Schedule M-3 provides data at the time of filing that LMSB can use to identify potential compliance problems. In the past, much of the data required by Schedule M-3 was not available to the IRS until a tax examination was underway, several months after the time of filing. In addition to speeding up needed compliance actions such as tax examinations, the Schedule M-3 is designed to more precisely target compliance problems.

The Schedule M-3 minimizes netting and combining differences between financial accounting net income and taxable income in regard to dissimilar items of income and expense that, in the past, have made it very difficult for the IRS to fully evaluate the risk in a particular return. In the past, taxpayers attached supporting data for the Schedule M-1 to the tax return. There was inconsistency among taxpayers in the content and methodology employed to arrive at the supporting data provided. As a result, the IRS spent

⁷ For tax years ending December 31, 2005, corporations with assets of \$50 million or more that file Forms 1120 or 1120S, and file at least 250 returns annually, including income tax, excise tax, employment tax, and information returns, are required to electronically file their returns. For tax years ending December 31, 2006, corporations with assets of \$10 million or more that file Forms 1120 or 1120S, and file at least 250 returns annually, including income tax, excise tax, employment tax, and information returns, are required to electronically file their returns. Beginning in January 2007, the IRS began processing electronically-filed partnership returns (Form 1065 & 1065-B). As of December 7, 2008, more than 56,146 of the largest corporations (those with assets in excess of \$10 million) and more than 27,497 partnerships (with assets in excess of \$10 million) successfully made the transition from paper to electronic returns for the 2007 tax year. Although electronic filing is required of certain taxpayers, others may and have voluntarily converted to electronic filing.

considerable time with taxpayers attempting to make the data meaningful for proper issue and tax analysis.

The Schedule M-3 is not only an audit selection tool, but also a de-selection tool. It is allowing the IRS to more efficiently identify and exclude lower risk taxpayers from consideration for examination.

IRS has also revised and developed certain forms (Forms 1120 and 1065 and related schedules) filed by corporations and partnerships in the interest of increased transparency. These changes require reporting of information on the relationship between entities that make up complex business enterprise structures.

The IRS carefully balances requirements for increased information reporting against the potential increased burden on the taxpayer. The taxpayer incentive should be viewed as a shared interest in a tax administration system that requires time and resource expenditure only as needed to resolve issues.

VIII. KEY MEASURES

LMSB employs the services of an independent research firm to measure customer satisfaction on various facets of the examination process for taxpayers who have been examined. Length of examination consistently over the years has been the major issue cited by taxpayers surveyed. Among the other factors influencing customer satisfaction are accuracy and propriety of tax adjustments, scope and depth of the examination and performance of the examiner, including consideration of taxpayer information. LMSB considers the results to identify improvement opportunities. The overall level of satisfaction for IC taxpayers is 82%, and 83% for CIC taxpayers, substantially the same levels as in 2005.⁸

Quality measurement and analysis of technical application and adherence to established auditing standards by examination personnel is continually performed as part of the LMSB business review process. Since 2005 there has been a marked increase in quality. Overall IC quality has improved from 77% to 88%. CIC quality has improved from 89% to 97%.

Another key measure related to customer satisfaction in cycle time, the length of time to conduct an examination. Since 2003 the average cycle time for all LMSB examinations has decreased from 42.4 months to 31.8 months.

⁸ Reference footnote 1 for an explanation of IC and CIC taxpayer designation.

LMSB is developing measures to gauge the effectiveness of the CAP program, which according to the earlier discussion, shows great promise for providing issue resolution and certainty through real-time and transparent interactions with taxpayers. It is interesting to note that CAP taxpayers give the process a 93% customer satisfaction rating. Additionally, cycle time for CAP during the pilot years has averaged less than 20 months.

IX. TAX ADMINISTRATION IMPACTS IN AN ECONOMIC DOWNTURN

In light of the current severe economic downturn, the IRS is taking steps to ensure a proper balance is maintained between the compliance responsibilities of tax administration, needed economic stimulus, and the financial hardship realities facing citizens and businesses. Because tax payment is a factor in cash flow for taxpayers, whether personal or business, the IRS is able to adjust processes and procedures relating to the collection of tax due and refund of tax overpayments, to preclude personal or business financial failure and, conversely, to support economic recovery. These considerations for taxpayers willing to meet their obligations, but who are financially not able to at this time include:

- Flexibility for missed payments,
- Adjusting terms of existing payment plans for outstanding tax under and existing installment agreement or offer-in-compromise (OIC),⁹
- Re-evaluation of home asset values for purposes of accepting an OIC,
- Postponement or suspension of collection actions in hardship cases where taxpayers are unable to pay for such reason as job loss or other financial problem.

A significant provision of U.S. tax law permits businesses to carry back a current year net operating loss (NOL) and claim a refund of prior year taxes. In anticipation that many corporations and other businesses are in a current year NOL position, IRS is taking steps to ensure such claims are processed expeditiously, as these tax overpayments represent revenue the affected businesses may need for continued successful business operation. IRS is also taking steps to ensure quick processing and delivery of refunds arising from amendments of prior year returns and overpayments of current year taxes

⁹ An installment agreement is a payment plan for outstanding tax due. An OIC is an agreement between the taxpayer and IRS that settles an outstanding tax debt for payment of a lesser amount. OIC's take into account the taxpayer's net worth.

In addition to timely treatment of NOL and other refund claims, LMSB is currently assessing the tax ramifications of possible increased situations involving bankruptcy and mergers and acquisitions, to determine available actions that can provide affected taxpayers issue resolution and certainty.

X. MOVING FORWARD - TAXPAYER TRANSPARENCY AND RISK MANAGEMENT

The experiences of the past nine years since the creation of LMSB have demonstrated that there can be significant benefits to large corporate taxpayers in the management of their tax risk from the early disclosure and resolution of issues and benefits to the IRS from a resource allocation perspective.

From a taxpayer's standpoint, disclosure requirements arising from shareholder reporting rules,¹⁰ which can affect share prices, and lengthy audits can be avoided when complex issues are resolved early in the process (ideally in real time or before a return is even filed). The availability of these benefits, though, should depend on the degree to which taxpayers are willing to be transparent in their relationship with the tax administrator.

From a tax administration standpoint, transparency can enhance risk assessment, enabling the government to employ its resources more efficiently, focusing on the highest areas of risk. A lack of transparency by a large corporate taxpayer is a sign to a tax administrator of high-risk behavior. Taxpayers that demonstrate high-risk behavior can expect to attract far more scrutiny than taxpayers who behave transparently. Taxpayers that behave transparently can take advantage of the lower compliance costs that can come from taking a cooperative approach with the government. When taxpayers are open and forthcoming about issues, tax administrators can use risk assessment to make informed decisions about how to allocate resources to areas that are most likely to benefit from attention.

Going forward, LMSB is pursuing opportunities for improved transparency in connection with changes occurring in the financial accounting and regulatory environment. Closer alignment of tax reporting and compliance processes

¹⁰ For example, Interpretation 48 ("FIN 48"), issued in June 2006 by the Financial Accounting Standards Board ("FASB") mandates rules for recognition, de-recognition, measurement, and disclosure in U.S. GAAP financial statements of all tax positions taken or expected to be taken in income tax returns. Under FIN 48, a tax benefit may be reflected in the financial statements only if it is "more likely than not" that the company will be able to sustain the tax return position.

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with financial statement accounting, corporate management reporting systems, and regulatory filing requirements is an area the IRS will continue to explore. There are significant opportunities to streamline and enhance the desired tax administration objective of greater taxpayer transparency and the desired taxpayer objective of earlier certainty by leveraging financial accounting and regulatory practices.

Many of the initiatives described above have been enhanced by engaging stakeholders in improving our business processes. In this past year, LMSB invited a wide range of external stakeholders to provide input on tax return transparency and disclosure and enterprise compliance risk. The IRS is evaluating the concerns received from this process as it looks to move forward on new tax administration approaches.

Case study

Topic 2.2

INCENTIVE AND COMPLIANCE FACILITATION MECHANISMS BASED ON THE BEHAVIOR OF TAXPAYERS

Francisco Fonseca

Director General
General Directorate of Taxation
(Costa Rica)

SUMMARY: 1. Introduction.- 2. Tax Intelligence and Risk Matrix as objective elements for identifying taxpayers benefitting from compliance incentives.- 3. Legal basis and incentives for most compliant taxpayers in Costa Rica.- 4. Conclusions

1. INTRODUCTION

Perhaps in any tax scenario, but especially in those that could be considered "low compliance" or "generalized noncompliance", the group of taxpayers that duly comply with their duties -regardless of their magnitude- should be given greater administrative attention. Said group constitutes an authentic "spearhead" whose preservation, first and subsequent eventual increase, could acquire strategic importance in the struggle against tax noncompliance.

Not only because of compliance with the material duty of making the corresponding tax payments, but also because of obligatory compliance with a series of formal duties which definitely make it more costly, compliant taxpayers are at a disadvantage vis-a-vis noncompliers, which frequently results in a significant competitive disadvantage. All of this within a context, at least in generalized tax noncompliance environments of null social recognition, not to say of a certain stigmatization, on perceiving noncompliance as an act of intelligence or skill of by the persons who incurs in it.

In view of this situation, the sustainability of the positive level of compliance achieved, regardless of its magnitude, appears as extremely fragile. And the undesirable effects, in relation to the goal -which is not less valid because of its difficulty- of increasing voluntary compliance or, of reducing noncompliance -in sum, two sides of the same coin- are easily evidenced. Something must be tried in order to eliminate or reduce said risk. More precisely, any or some incentives must be considered to support those positive behaviors.

OBJECTIVE

It would appear strange even to think that due compliance with the constitutional duty of contributing to the payment of public expenditures, should be rewarded. If this were valid, would it likewise not be valid to reward honesty? In both cases, it is a matter of behaviors that serve as basis and render possible harmonious coexistence and, likewise, the viability of the organization and long-lasting existence of our societies.

Without the least intention of solving the controversy which, we recognize, is barely being raised, the justification, in the case of tax compliance could be in transferring to the compliant taxpayer the cost savings which his positive behavior could entail for the Administration and, through that means, attempt to reduce the "indirect tax pressure". In other words, since taxpayer noncompliance involves enormous costs for the tax Administration, due to the actions that must be undertaken for correcting it, then it could be considered valid that those who fully comply may be entitled, through a series of "friendly" administrative procedures, to a reduction of their compliance costs.

In sum, the objective pursued on creating mechanisms for promoting and facilitating compliance based on the taxpayers' behavior, should be, first of all, to keep within the group of compliant taxpayers those who have shown appropriate behavior in their tax duties, through the implementation of mechanisms that may involve advantages vis-a-vis the noncompliers, and as second objective that on verifying such advantages, those who fail to comply may find motivations for moving in the direction of compliance.

CONCEPT

The creation of advantages for a specific group of taxpayers could raise doubts about the respect that should be observed for constitutionally protected principles, such as fairness. Accordingly, the conceptualization of the group of taxpayers subject to the advantages to which we are referring, must be done as precisely as possible, by resorting to objective factors rather than

indeterminate rhetorical formulas, in such a way that may be easily understandable by all taxpayers and especially, on the basis of such understanding, the right to enjoy the advantages granted may be requested by whoever fulfills such definition.

This scheme could not in any way be understood as gracious or graceful concessions of the administrative bodies. It is worth recalling that, like any other of the acts carried out by the tax administration, it would be acts of Public Law that must strictly abide by the law and, with its action being mainly focused on the verification of compliance with the established requisites by a specific taxpayer.

Thus, any taxpayer fulfilling the requirements -which must be determined through the normative instruments qualified for such purpose and officially published- would be entitled to the obviously, also normatively agreed advantages. In this way, one would also be solving the constitutional issue, since equal treatment would be afforded to all those who are in the same situation; that is, all those who are in the group of compliant taxpayers (horizontal equity) and in an unequal manner to those who are different; that is, compliant versus noncompliant taxpayers (vertical equity).

In sum, "compliant taxpayers" susceptible of obtaining the advantages agreed must be understood to be all those who comply with specific objective factors -who are listed in the following section- and which appear in the officially published appropriate normative media.

2. TAX INTELLIGENCE AND RISK MATRIX AS OBJECTIVE ELEMENTS FOR IDENTIFYING TAXPAYERS BENEFITTING FROM COMPLIANCE INCENTIVES

Tax intelligence, a process ever more used by the tax administrations to manage important information for controlling and defining on the basis thereof, risk profiles that may optimize the use of the always limited resources of the Administration, provides the necessary classification tools for objectively and equitably identifying the taxpayers that may benefit from the compliance incentives.

Although it is true that at the General Directorate of Taxation of Costa Rica we have been working for two decades in tax control issues with intelligence and risk criteria for selecting taxpayers to be audited, these criteria have been evolving through time with improvements in tax management that have been developed throughout the decade of the eighties in the past century. Particularly in the past ten years there has been significant computerized support for the management and processing of third-party as well as the

taxpayer's own information. However, it was not until a few years ago that, within the framework of an ambitious project for the integral transformation of the country's tax management model, intensively based on digital government strategies, currently in the process of development and implementation that the issue of tax intelligence as source of administration of the information and taxpayer classification has been promoted for orienting with greater accuracy and transparency the efforts of the administration toward effectively complying with its mission.

This ambitious Project known as "Digital Taxation", considers in its fourth and last stage of implementation, scheduled for late 2009, the implementation of a "Tax Intelligence Model", wherein a Matrix of Risk Profiles is developed and, in relation to the issue that concerns us and by contrast, "Compliance Profiles" that will be the basis of identification of taxpayers subject to the incentives.

The risk matrix is conceptualized as a basic element of the tax intelligence component, created for the consistent, coherent, systematic and rational use of a series of risk indicators - that are assigned a weight - and which interrelated under mathematical and statistical formulas generate a series of characteristics or predictors that allow the tax administration to guide its efforts toward those sectors that represent the greater risk to efficient tax management, in general and processes, in particular, with a view to arriving at higher levels of collection.

The methodology for structuring it is based on the tax risk index (TRI), a figure applicable to 100% of the country's taxpayers, obtained from the weighting of the values achieved by a group of taxpayer economic-tax behavior indicators considered critical.

This figure acts as the taxpayer's global assessment and has the advantage of representing by means of a single value, the combination of the indexes that account for his tax behavior.

Tax risk is understood to be the probability that a taxpayer may declare less taxes than he should declare according to the economic and tax potential, his scale of production and operation and, likewise, his industrial and economic environment. In the risk matrix designed, initially the following risk zones have been identified:

- **Tax Compliance:**

First general analysis intended to verify whether the taxpayer has correctly declared 100% of his self-assessment and/or informative tax obligations.

- **Consistency Among Taxes:**

Analysis intended to verify the necessary consistencies with respect to the declared values, among related taxes. For example, the annual amount of sales declared in relation to the sales tax must be consistent with the annual sales item declared under income tax, for said tax period.

- **Consistency with Third Parties:**

To the extent there is third party information relative to the taxpayer being analyzed, this area is aimed at verifying that both are consistent. For example, the sum of imports recorded by Customs in a given period must be consistent with the imports item declared under the Sales Tax, for that same tax period.

- **Consistency of each Tax:**

After concluding the foregoing analyses, this control zone continues to analyze the tax consistency of each of the returns filed.

The model identifies for each tax risk zone, one or several indicators that allow it to develop a global risk indicator, which applied to an algorithm for the measurement, will locate each taxpayer in accordance with his tax behavior.

For example, as many indicators as tax returns required for verifying taxpayer compliance would be designed for the tax compliance risk zone.

The structuring of the TRI begins with the definition of the series of tax risk indicators considered critical and which would be used in structuring the index.

Thereafter, a discrete scale of values is defined to weight the risk (for example, [0-1-2-3]), to then assign ranges to every risk variable that would locate it in one or another weighting factor. In this case, 0 represents no risk and 3 maximum risk.

An importance weight is subsequently assigned to every variable. It represents the level of importance of said variable in the taxpayer's risk.

Again a discrete scale of values is used to weigh each variable (for example [0 - 1]).

The tax risk index (TRI) is finally obtained through the weighted average calculated as the sum of the risk weighting factor achieved by each variable, multiplied by the weight of said variable. In order to establish an indicator

that may be easily identified and evaluated, the number obtained is divided by the sum of the weight of each variable, multiplied by the maximum range of the scale of weights (in this case 3).

Finally, the formula is applied to each taxpayer, thereby obtaining a value of the TRI that is within the range of 0 and 1 and where the risk increases as the TRI increases with the maximum being in those taxpayers with TI 1.

Alternately, the "Tax Risk Matrix" is structured by grouping taxpayers with the same TRI, classified according to such dimensions as: taxpayer size, economic activity, geographical location, etc.

Such groupings with the dimensions determined, may be visualized by the users of the tax control areas, so that on the basis of the resulting data shown by the "Risk Matrix", taxpayers may be selected in order to subject them to the required controls for improving their compliance.

With this same tool the Administration identifies taxpayers with optimum compliance according to their TRI, on which basis it may create "rewards" or tax incentives plans for their compliance. This is precisely the case that concerns us and provides us the objective classification tool for the granting of incentives.

Legal Identification Means:

The parameters for selecting compliant taxpayers, as well as the incentives to which they will be entitled, should be made known in a transparent and public manner.

It is important for taxpayers to be aware of their rights in this area and request them when they fulfill the conditions for obtaining them, thereby eliminating any risk of subjective favoritism, which may de-legitimize the objective pursued with this type of incentives.

The Tax Administration of Costa Rica has anticipated the incorporation of the incentives and criteria for identifying taxpayers entitled thereto, which have already been mentioned in the description of the risk matrix, in a general resolution published in the official gazette, so that they may be requested by those who believe they qualify according to these criteria and therefore have a right to the incentives

3. LEGAL BASIS AND INCENTIVES FOR MOST COMPLIANT TAXPAYERS IN COSTA RICA

The incentives provided in the Costa Rican legislation and which the Administration currently affords the most compliant taxpayers are the following:

Payment Facilities with less Requisites and Longer Terms

Taxpayers who have shown sustained punctuality in filing their returns and paying their taxes, and for some special reason face some liquidity problem that prevents them from paying within the established term, are given a more favorable treatment than the rest requiring this type of facilities.

The legal basis for granting these facilities is found in the Code of Tax Regulations and Procedures, hereinafter the Tax Code, which reads as follows:

"Article 38.- Deferments and Installment Payments.

In cases and in the manner determined by the regulations, the Tax Administration may defer or divide the payment of the tax debts, including transferable taxes which may have not been collected to the end consumer and provided that the debtor's economic-financial situation, duly proven before the administration may temporarily prevent him from paying on time."

In addition, taxpayers who enjoy this benefit are exempted from the sanction for delinquency as provided in article 80 bis of the same law which reads as follows:

"...No sanction will be applicable and there will be no interruption in its calculation when the deferments and installment payments provided in article 38 of this Code are granted."

These regulations, through regulatory provisions and procedures established by the Administration allow for providing a more favorable treatment to taxpayers considered as most compliant. In practice, the general rule is that, in order to grant these facilities, the applicant must make an initial twenty five per cent payment and pay the rest in six months. Nevertheless, the procedures provide that, for taxpayers with good compliance characteristics, the initial payment may be reduced to a much lower percentage and the term increased up to two years. In addition, there is greater flexibility in the guarantees requested, provided that they are based on good compliance

Tax Discounts for Taxpayers Filing and Paying Through Electronic Means

Undoubtedly the use of electronic means by the taxpayers significantly reduces costs to the Administration. In the Costa Rican case, this is considered in article 122 of the Tax Code which provides that "...Regardless of the fact that the administration may order the obligatory use of these (electronic) means, it shall be authorized to grant, at its discretion, incentives to those who use them within a scale of discount percentages of the tax payable, differentiated according to taxpayer ranks whose maximum discount percentage cannot exceed five per cent".

This provision has been regulated through resolution of the Administration for taxpayers who use the electronic filing and payment means that have been available since 2002. Nevertheless, with the implementation of Digital Taxation it has been decided to render obligatory the use of electronic filing and payment, with a view to taking advantage of the legal discount power for stimulating new incentive schemes for compliant taxpayers that may be more in keeping with the needs of the Administration, within the framework of the new system.

One of the possibilities currently considered is to apply the discount to those who use electronic means and advance their filing and payment date, which would imply a lower flow of transactions on the tax filing expiration dates. In this way we continue to contribute to close the digital gap, in addition to reducing administrative processing costs.

Handling Related Inquiries within Lower Terms

The Costa Rican law allows the taxpayer the possibility of consulting the Administration regarding the application of the tax law to a specific and current situation, through compliance with a series of requisites, as provided in article 119 of the Tax Code.

The Administration is allowed forty five working days to answer the inquiry and if upon expiration of such term it does not issue a response resolution the interpretation by the person making the inquiry must be understood as approved if the latter has explained it. In other words, "positive silence" is applicable in these cases.

The Administration has given instructions so that in the case of taxpayers with previously determined compliance characteristics, the forty-five day term be reduced to thirty days or less.

More Expeditious Resolutions and Controls Reduced to a Minimum in the Processing of Refunds

Since taxpayers have a legitimate interest in being refunded as soon as possible, excess payments, either from withholdings or on account payment of taxes or value added tax, especially in the case of exporters, the Administration has instructed that procedures be more expeditious for those considered as compliant taxpayers. For example, the mean being four months, in the latter's case, the procedure is concluded within a term that does not exceed two months. Even in those cases where previous verification of the origin of favorable balances is required, prior to making the pertinent refund, in the case of compliant taxpayers, instructions have been given to the control and verification offices so that verification actions be carried out within the shortest terms and scope possible. As a general rule, such verifications take place within an average three-month term, but instructions have been given so that in the case of compliant taxpayers, the term should not exceed two months. When it must be exceeded, previous authorization is required and the taxpayer must be duly informed.

Reducing Sanctions when the Taxpayer Spontaneously Rectifies any Noncompliance or else, when Detected by the Administration, the Taxpayer Promptly Rectifies it

It is obvious that if the taxpayer must rectify a noncompliance we are no longer faced with a typical "good compliant taxpayer", but in keeping with what has been previously stated, in the section that describes the purpose of this document, incentives for due compliance should also constitute, for those who fail to comply a motivation for directing them toward compliance.

Article 88 of the Tax Code provides for discounts of up to eighty per cent of the administrative sanction for those who rectify and spontaneously self-assess the sanction.

The same article and in case the Administration may have detected noncompliance, provides for discounts of up to fifty five per cent for those who rectify their noncompliance and self-assess their sanction in the earlier stages of the administrative procedure.

Other Mechanisms Anticipated

The aforementioned mechanisms should not be seen as an end-product, but rather as an effort within a process of search for authentic means that may set a positive difference in favor of good taxpayers.

The Digital Taxation Project which, as indicated, is being implemented in 2009, will provide the technical bases for more effectively systematizing and organizing this process.

On the other hand, the Ministry of Finance of Costa Rica has placed high hopes on a national scope initiative which includes the three State Powers and other players from civil society, strongly promoted by the Presidency of the Republic. It is aimed at the design and implementation of a National Plan for the Prevention and Struggle against Tax Fraud and likewise, working groups in charge of measures of a preventive nature have been urged to propose the creation of other incentive mechanisms for the compliant taxpayer, as well as for strengthening the existing ones.

4. CONCLUSIONS

The group of good compliers has not been given adequate attentions by the tax administrations, especially in the countries with generalized noncompliance. The creation of mechanisms that favor them may be a form of compensation for that group so as to allow them to sustain such good compliance.

These mechanisms, as they imply unequal treatment could be seen as not legally viable. However, by correctly applying the principle of equity, which involves vertical and horizontal equity, they would fulfill the constitutional principle of equality.

Because of the obliged generality imposed by the application of the tax system, the mechanisms for identifying compliant taxpayers and the incentives to which they are entitled, must be clearly determined and published. The Costa Rican tax administration has focused its classification effort on the tax intelligence tools that allow for classifying taxpayers according to levels of risk and compliance. Incentives, on their part, are documented in provisions duly formulated and published. Each country will select the appropriate means for doing it, but worth noting is the importance in the formality of the procedures and technical and juridical arguments justifying them.

In Costa Rica, measures have been implemented, in practice, some legally authorized, others not requiring it, but which are definitely aimed at creating a difference in favor of good compliers.

Some of these mechanisms have required legal regulations, as is the case of discounts in taxes payable or the reduction of sanctions, both provided in the Tax Regulations and Procedures Code. For others, the administrative decision

stipulated in rules and resolutions has been sufficient. In either case, they must not be seen as an end-product, but rather as a perfectible effort to find appropriate mechanisms that may create a difference in favor of good compliers and by means of such difference, not only try to ensure that good compliers may keep up their compliant behavior, but also attempt to attract non-compliers to this group.

In sum, it is a matter of endeavoring to correct the Administration's lack of attention to good compliers, who actually do not abound in our fiscal realities of low compliance. These taxpayers must feel that the Administration is close to them, recognizes their good behavior and promotes it. It is a way in which the traditional mission of the tax administration may evolve, from promoting voluntary compliance through service facilities and orientation, toward recognition of such good compliance, expressly materialized through specific incentives for said group.

Case study

Topic 2.2

INCENTIVE AND COMPLIANCE FACILITATION MECHANISMS BASED ON THE BEHAVIOR OF TAXPAYERS

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SUMMARY: 1. Background.- 2. Taxpayer behaviour.- 3. Rewarding behaviour.- 3.1. Positive reinforcement mechanisms.- 3.1.1. Tax refunds management.- 3.1.2. Tax audit selection.- 3.1.2.1. Group factors.- 3.1.2.2. Individual factors.- 3.1.3 Waiver of penalties.- 3.1.4. Customs authorized economic operator (AEO) scheme.- 3.1.5. Taxpayer recognition scheme.- 3.1.6. Public dealings.- 3.2. Negative reinforcement mechanisms.- 4. Conclusion

1. BACKGROUND

The Kenya Revenue Authority administers various taxes including:

- Customs Duties
- VAT
- Income Tax
- Excise Tax
- Property (Real Estate) Tax
- Motor Vehicle Taxes - Purchase and Road Use
- Agency Taxes - on mutual agreement with other agencies

Tax administration functions include:

- Taxpayer registration
- Tax collection and debt management
- Tax compliance management including undertaking audits and issuing additional assessments
- Managing tax refunds
- Border security management.

Kenyan taxes are administered on self-declaration and self-assessment basis with audits being undertaken on selective basis. Customs management is coordinated with four other East African countries under the auspices of the East African Customs Management framework which provides for uniform practices.

2. TAXPAYER BEHAVIOUR

In common with many developing countries, the KRA approaches tax administration within the context of several considerations including:

- Low level of automation - which curtails the ability to make inferences based on trends and group traits, two factors key in the understanding of taxpayer behaviour.
- Traditional approach geared towards enforcement - with great emphasis on audit as a tool for influencing taxpayer behaviour but effectiveness has been limited by resource availability and growing complexity of business and tax evasion/ avoidance schemes. As observed in many research studies, audit has only limited impact as a means of influencing taxpayer behaviour and similar considerations apply in Kenya particularly given very low audit coverage.
- Significant incidence of tax avoidance/ evasion with estimates of tax gap ranging from 15% to as high as 50% depending on the tax head.
- Weak tax risk management culture - compounded by inadequate database information, analytical tools and lack of a structured risk management framework.

The presentation therefore reflects the initial steps made in seeking to establish a coherent approach to tax administration using taxpayer behaviour and risk management techniques in a still significantly non-automated environment (work is in progress to implement an automated internet based tax management system with electronic filing having commenced in January 2009). It also reflects the priorities as seen from the KRA's perspective given resource and capacity limitations.

Understanding Taxpayer Behaviour

While no specific studies have been undertaken in Kenya to determine the drivers underpinning taxpayer behaviour, observations do point to factors similar to those documented in studies done elsewhere including:

- Risk of detection - for businesses this varies with the nature of transactions with higher compliance noted among well established entities that carry out trade "above board". Highest non-compliance is usually among informal businesses and those trading on cash basis. Organisational structure is therefore a major consideration in the prediction of taxpayer behaviour.
- The distilling of alcoholic spirituous beverages and water bottling serve as cases in point where low detection risk may negatively impact compliance behaviour among good taxpayers. In both sectors regular complaints are received especially from large taxpayers about a "tilted playing field" in which some players are seen not to comply, a fact which they claim renders their products to become less competitive. A few have openly "threatened" intention to follow suit as a means of ensuring business survival. Similar complaints against illicit imports are regularly recorded amongst large local manufacturers.
- Perceptions of equity - fairness considerations weigh heavily especially in matters concerning audit selection with large businesses perceiving themselves as being more intensely targeted. Perceptions also exist that some who do not play by the rules get away with it to the detriment of those who comply.
- A few instances have been detected where unpleasant past experiences with the tax authority have made certain taxpayers adopt a perpetually hostile attitude towards compliance. Recent debate in Kenya has also focused public attention on the discriminative tax status conferred on some benefits earned by certain public officers, a fact which has negatively impacted public perceptions about tax compliance.
- Perceived high rates of tax - there are perceptions (though not entirely accurate) that Kenya's tax rates are high and hence not business friendly. In some cases (e.g. excise duty), rates are seen as disproportionately higher in comparison with those in neighbouring countries.
- Complex legislation - a substantial proportion of audit adjustments result from what may be classified as "interpretation" issues, a fact underlining perceived complexities/ ambiguities in tax legislation. This area is now receiving closer scrutiny to align compliance behaviour with the attitude and flexibility exhibited in the resolution of tax disputes.

- Disputes centred on legal complexity have tended to create "bad blood" between the KRA and (especially large) taxpayers resulting in threats of, or actual filing of, legal suits. The downside is that the tax authority is seen as aggressive, unfriendly and one to be avoided.
- Public service delivery - concerns are routinely raised regarding government spending priorities and the value derived vis-a-vis the tax burden. It has become necessary to address this issue as part of the KRA's public education drive.
- Group and/ or individual characteristics - trends in behaviour point at unique challenges attributable to specific groups. Export and petroleum related tax refund claims exhibit higher fraud incidence while both sectors also exhibit consistently depressed profitability (the former attributed to transfer pricing and the latter to cost manipulation and product diversion).

3. REWARDING BEHAVIOUR

There are a number of ways through which the KRA seeks to reinforce tax compliance behaviour with the general objective of projecting fairness in the tax administration process. Research studies have reported the building of trust to be among the most effective means through which voluntary compliance can be nurtured.

The mechanisms used fall into two categories namely:

3.1 Positive Reinforcement Mechanisms

These cover the following aspects:

- Tax refunds management
- Tax audit selection
- Waiver of tax penalties
- Customs clearance
- Taxpayer recognition scheme

3.1.1 Tax Refunds Management

Several parameters are utilized to discriminate between Low, Moderate and High Risk claimants. Among these (and their weights) are:

- **Industry sector (0.1)** - certain sectors exhibit higher fraudulent claims risk (exporters, oil companies).
- **Nature of claim (0.1)** - claims based on export transactions rated more risky than claims arising from VAT withheld and from normal transactions.

- **Claims frequency (0.1)** - more frequent claimants rated as less risky (but this notion currently under scrutiny based on recent experience).
- **Past claims record (0.3)** - based on audit results.
- **Tax agent record (0.2)** - based on experience with past claims and agents' own tax compliance.
- **Tax compliance record (0.2)** - corporation tax performance is especially significant with focus on tax yield (tax paid/turnover).

A general rule is to benchmark corporation tax performance to the perceived "best" performer in the sector and to generate audit queries on this basis. In some sectors (e.g. construction), independent professional standards are used to gauge profitability margins.

A weighted score derived from these parameters is utilized as the basis for either one of the following decisions:

- Pay without audit - below 0.30 (Low Risk)
- Pay and audit later - 0.31 to 0.65 (Moderate Risk)
- Audit before payment - above 0.65 (High Risk)

Claimant rating is undertaken quarterly and significant benefit has been recorded through speedier and more objective claims processing.

Some challenges encountered include:

- Developing a comprehensive measure for tax compliance that includes an assessment of the accuracy of tax filings.
- Developing reliable measures for certain quantitative and non-quantitative parameters (past claims record, tax agent reputation).

3.1.2 Tax Audit Selection

Until recently, audit selection was subjective with the rule of thumb being for each taxpayer to be audited once every three years. Audits also invariably covered all tax heads with no regard to taxpayer compliance behaviour either globally or on specific tax heads.

As earlier observed, indiscriminate audit selection engendered feelings of bias within sections of the taxpaying public with the system seen as penalizing the highly visible "deep pocketed" taxpayers through more frequent visits while the less visible and probably less compliant ones received less frequent visits. Risk based selection has enabled the linking of compliance behaviour with audit activity which among Kenyan taxpayers is seen as a not too pleasant exercise to be avoided to the extent possible.

The present methodology pools two factors:

Group factors - 0.3

Individual factors - 0.7

3.1.2.1 Group Factors

This consists of factors common to the population including:

- Regulatory framework (0.1) - existence of structured regulation improves rating (banks, insurance firms, listed companies).
- Industry sector (0.4) - considers business complexity, nature of business transactions (cash/ non-cash ; export/ local), history of known cases.
- Listing/ incorporation status (0.3) - widely held, non-owner managed enterprises seen as low risk due to lesser incentive for private benefit.
- Auditor profile (0.2) - categorized on the basis of professional status (firm size, international affiliation, disciplinary record) and tax accuracy filing record.

3.1.2.2 Individual Factors

This considers factors unique to the taxpayer including:

- Tax compliance (0.5) - measured against pre-determined revenue expectation, filing record and regularity.
- Financial performance (0.3) - using conventional indicators to detect unusual trends or "outliers".
- Business complexity (0.1) - influenced by industry, nature of business and group structure.
- Auditor/ agent (0.1) - based on frequency of changes made which may be an indication of "auditor/ agent shopping".

To further improve transparency of the process, communication on audit matters specifies in detail the grounds that led to selection.

The performance of the risk rating system in accurately prioritizing audit case load has yet to be assessed. An approach comparing the significance of audit adjustments made in the risk rated group against data from control groups (including a randomized sample) is favoured and forms part of planned research agenda.

3.1.3 Waiver of Penalties

Remission of penalties considers the following behaviour related factors:

- Voluntary disclosure (0.5) - there is need to balance disclosure incentive against the potential to encourage evasion and delayed remittance of taxes where the remission is seen as too attractive. However additional consideration needs to be given where past compliance behaviour is rated positively, in order to ensure that the taxpayer is not disadvantaged by choosing to voluntarily disclose.
- Cooperation during audit (0.1) - willingness to accommodate audits and provide required information.

3.1.4 Customs Authorized Economic Operator (AEO) Scheme

The scheme facilitates expedited import cargo release for selected taxpayers based on the following equally weighted factors:

- Tax compliance - considering the broad tax context (among the major benefits of having Customs and Tax integration).
- Financial stability - based on conventional financial indicators.
- Control environment - by review of governance and internal control systems.
- Safety and security - risk associated with cargo type and input from other state security arms.

All AEOs are subjected to mandatory post clearance audits to discourage under-declaration. Plans are in progress to implement a risk based audit selection system.

3.1.5 Taxpayer Recognition Scheme

The scheme publicly acknowledges taxpayers who excel based on the following parameters among others:

- Absolute level of taxes paid.
- Corporation tax yield.
- Most improved tax remittance.
- Support to reform initiatives.
- Information sharing (especially on suspected tax evasion schemes).

No special tax or other incentives attach to this scheme but winners appear to value it as a complement to their CSR initiatives.

3.1.6 Public Dealings

Access to the following government related privileges is contingent upon proof of tax compliance:

- Government contracts
- Government appointments

The range of privileges may be extended to include election into public office.

3.2 Negative Reinforcement Mechanisms

As mentioned at the beginning of paragraph 2, Kenya has a high incidence of tax evasion historically driven by a weak enforcement regime including the absence of stringent legal sanctions. In recent years action has been taken to strengthen the enforcement regime in the following ways:

- Including tax evasion among economic crimes - section 45(2) of the Kenyan Anti-Corruption Act states that a person is guilty of an offence under the Act if he:

"fails to pay any taxes or any fees, levies or charges payable to any public body or effects or obtains any exemption, remission, reduction or abatement from payment of any such taxes, fees, levies or charges".

The maximum penalty for tax evasion under this law is one million shillings (equivalent to USD12,500) plus mandatory fine of twice the amount of tax evaded and/or ten years imprisonment. The law also provides for asset tracing.

- Introducing more stringent sanctions within revenue laws in respect of access to third party information, seizure of property, premises or bank accounts.
- Establishing a dedicated prosecution office within the KRA with state sanctioned prosecutorial power - this speeds up prosecution and guarantees better success rate.
- Publicizing tax evasion court cases

The framework is buttressed with an Information Reward Scheme that encourages the provision by members of the public of details that may lead to the detection of tax evasion schemes. A significant proportion of the information provided through this avenue comes from business competitors.

4. CONCLUSION

Linking taxpayer behaviour to tax administration response has helped build taxpayer confidence, direct resources more effectively and improve service delivery.

The main challenge however lies in the relatively minimal public appreciation of this linkage given the low level of dissemination of the schemes available and the benefits. Consideration is being given to publicising the assessment criteria to improve trust and public confidence.

There is the additional challenge of having to develop a corporate wide single viewpoint behaviour/ risk prediction model based on empirical data. The KRA is to create a dedicated corporate level function with the mandate to establish a risk management database in addition to promoting a unified approach to the understanding of taxpayer behaviour.

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TEMA 3

STRATEGIES AND INSTRUMENTS FOR IMPROVING MANAGEMENT IN THE TAX ADMINISTRATIONS

Lecture

Topic 3

STRATEGIES AND INSTRUMENTS FOR IMPROVING MANAGEMENT IN THE TAX ADMINISTRATIONS

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SUMMARY: Overview.- 1. Introduction.- 2. Management strategies in the RFB environment.- 3. Examples of specific projects.- 3.1 Changes to work processes in administrative trials.- 3.2 Digital federal revenues process of Brazil (e-Process).- 3.3 National synchronized cadastre (CADSINC).- 3.4 Public digital accounting system (SPED).- 3.5 Electronic invoicing (NF-e).- 3.6 Virtual taxpayer service center (e-CAC).- 4. Final considerations

OVERVIEW

Information technology has been one of the fundamental pillars for the management policies adopted at the Secretariat of Federal Revenues in Brazil (RFB). They are characterized by strategic actions aimed at reducing the costs and simplifying the accessory obligations of taxpayers, while enabling further expedience, efficiency, and transparency in tax management, also keeping a focus on integration with State and Municipal Tax Administrations.

A classic example of this strategy is the use of Internet for the reception of the Individual Income Tax (IRPF) returns. Even though it is currently seen as nothing out of the ordinary, the Internet as a means of submitting tax returns constitutes one of the major challenges faced by the Brazilian Tax Administration. Beginning in March 1997, the number of taxpayers who submit their tax returns by means other than the Internet is minimal. It is easier for taxpayers and more efficient for RFB's tax management.

This report will briefly describe the general guidelines of the management strategies adopted by the RFB, emphasizing the role of the intensive use of information technology. We will present some examples of management improvement instruments that were already implemented or are about to be implemented by the institution, such as the new tools for administrative trial management, the digital process (e-process), the National Synchronized Cadastre (CadSinc), the public digital accounting system (SPED), electronic invoicing (NF-e), and virtual attention (e-CAC), which are compatible with the spirit of modern tax administration of the CIAT General Assembly. Each one of these actions simplifies matters for taxpayers and improves management.

The SPED, NF-e, and CadSinc instruments represent joint work done by the RFB and State and Municipal Tax Administrations and set an example of the progress done as part of the country's institutional maturity, which strengthens state actions with more expedite and more powerful instruments against tax evasion and makes the business environment more propitious for citizens and corporations that are trying to operate in accordance with national laws.

1. INTRODUCTION

Information technology has played a key and growing role in the management policies adopted or implemented by the Federal Revenues Secretariat of Brazil (RFB).

The facilities and opportunities stemming from the development of computer science have led to substantial and paradigmatic gains in the Brazilian Tax Administration. The best example was the intensive use of Internet for the reception of the Individual Income Tax (IRPF) returns. Since 2000, more than 90% of Brazilian taxpayers submit their returns using the worldwide web, which entails a substantial simplification, compared to the old paper tax returns. From the standpoint of internal management, the gains were no less important with a drastic reduction in administrative costs and in the reception and digitalization of information submitted by taxpayers, thus decreasing the number of errors and enabling a much faster access to such information.

Despite the achievements of the progress made with these technological tools, there are more challenges. Today, it is not enough for Tax Administration to receive tax returns via Internet; it is also expected to meet a large part of the needs of its taxpayers directly on the worldwide web and

no longer in person. Thus, information corrections, explanations, the issuance of the Negative Debit Certificate, payments, and many other services can now be rendered online.

Therefore, just like technology is socially fundamental to address the demands of society, it also constitutes a source that creates new needs and demands that must be addressed as well.

This document will briefly describe the general guidelines of the management strategies adopted by the RFB, emphasizing the role of the intensive use of information technology. We will immediately present some examples of the management improvement tools that were already implemented or are about to be implemented, such as the new tools for administrative trial management, the digital process (e-process), the National Synchronized Cadastre (CadSinc), the Public Digital Accounting System (SPED), electronic invoicing (NF-e), and virtual taxpayer services (e-CAC), which are compatible with the spirit of modern tax administration of the CIAT General Assembly. The consolidation of the institutional maturity already reached by Brazilian Tax Administrations, which translates into a series of joint initiatives, will also be emphasized. In addition, some indicators showing the results already obtained or being expected from the aforementioned instruments will also be outlined. Finally, the final considerations of the Brazilian experience will be listed.

2. MANAGEMENT STRATEGIES IN THE RFB ENVIRONMENT

The management strategies of the RFB are more broadly broached in the Planning and Management Strategy (PGE), which comprises four-year periods. The actual planning corresponds to the period between 2008 and 2011. Meanwhile, such planning is being revised, and the changes were seen in the RFB administration in the second half of 2008.

The PGE includes a strategic matrix for the period under consideration, which begins with the mission, vision, and values, unfolding the various dimensions of the PFB actions in five major levels: State, Society, Taxpayers, Processes, People and Resources. A total of 15 pluri-nominal strategic objectives, linked to strategic actions and institutional management indicators, were outlined in association to these five levels. At the end of each year, Institutional Directives are established, guiding the focus of the strategic actions for the following year, considering that the institutional planning and evaluation process is dynamic and must receive constant feedback.

The following general objectives, which were forged by the RFB, are grouped by dimensions of the institution's actions.

State Dimension

1. Help in the formulation of tax and foreign trade policies.
2. Promote the integration of the RFB with the other state institutions and national and international organizations.

Society Dimension

3. Augment the actions of the RFB in the fight against organized crime.
4. Strengthen the institutional image of the RFB and promote citizens' tax awareness.

Taxpayer Dimension

5. Promote excellent services to taxpayers.

Processes Dimension

6. Optimize tax credit control and collection.
7. Improves the quality and production of fiscal work.
8. Increase the efficiency of oversight and repression of customs-related crimes.
9. Simplify, standardize, and expedite customs control.
10. Increase the efficiency and effectiveness in the preparation, analysis, and trials of administrative and tax processes.
11. Promote the improvement, simplification, and consolidation of federal tax legislation and standardize its interpretation.

People Dimension

12. Improve the people management policies of the RFB.

Resources Dimension

13. Increase the efficacy, efficiency, and effectiveness of budget, financial, capital, and confiscated merchandise management.
14. Refine the management policies of technology information and infrastructure.
15. Implement an excellent management in the RFB.

Once the objectives have been determined, the strategic initiatives are defined as a set of actions and projects necessary to achieve the strategic objectives, enabling the organization to go from the current state of affairs to the achievement of its goals.

In the case of the Secretariat of Federal Revenues of Brazil, the strategic initiatives were classified as levels 1, 2, or 3 strategic actions in the 2008/2011 Strategic Planning and Management program.

These actions must strengthen the RFB strategies, allowing compliance with institutional goals until 2011 and making sure that the strategic objectives are reached. The level 1 strategic initiatives are those directly followed by the Cabinet of the RFB and include projects and/or actions at the national level and are of great significance for the institution (see some projects in Chart 1). The level 1 strategic initiatives will be complemented by level 2 actions of sectorial and regional impact and by level 3 actions of impact on the local units and Offices of Processes (DRJ).

Chart 1 - National Strategic Projects

Public Digital Accounting System - Sped	Promote the integrated actions of federal, state, and municipal treasuries through the standardization and streamlining of information and shared access to taxpayers' digital accounting by legally authorized people.
Gauging the "fiscal gap"	Define and implement an institutional methodology to estimate the gap between the collection defined by the legal potential and the actual collection.
Arpia Project	Application of computer intelligence models for risk analysis in order to reach further efficiency and effectiveness in customs-related procedures through the standardization and optimization of fiscal selection.
Siscomex cargo	Digitalize the control of movements of ships and their cargo in international transportation, allowing a more effective customs control with a great savings in logistics by allowing the shipping of merchandise on water (freight on board).
National Fiscal Education Program	Educational actions that try to promote the conscious participation of citizens in the operation and improvement of the social and fiscal control instruments of the State, beginning with the awareness of people for the socioeconomic function of taxes by encouraging voluntary compliance. Proposal of a specific project aimed at internal fiscal education.

Fiscal Cadastre Project	System of overall control of compulsory taxes, beginning with taxpayers on differential follow-up, with the use of information from third parties and own information, enabling a preliminary estimate of the taxing power of taxpayers and the due accessory obligations.
E-Process	Electronic Administrative Process, which enables procedural actions and terms to be carried out electronically, putting aside the traditional use of paper processes and preserving the safety and authenticity of information. The documents will be authorized by the digital signature of both the official and the taxpayer through digital certification.
Revision and Simplification of Processes	Modeling and revision of organizational processes in order to promote the institutional modernization for the sake of the improvement and transparency of the services rendered, for the development and commitment of people, and for the management aimed at the achievement of results.
National Synchronized Cadastre	Increase the effectiveness in the rendering of services by the RFB through the reduction of compliance costs for taxpayers, the strengthening of oversight through the exchange of information with other tax administrations, and the reduction of the average time it takes to open companies in the country.
National Plan to Improve Taxpayer Services	Develop and implement a plan to improve taxpayer services through various channels in order to heed their demands in a standardized, proactive, integrated, and concluding fashion.

All these projects have an impact on the tax administration of the RFB, and many of them also have a bearing on state and municipal administrations. This point is essentially important, because it shows a major concern about the integration of the treasuries of the various federal organizations. This approach was reinforced by the new administration of the RFB with the creation of the Fiscal Cooperation and Integration General Coordinating Board, aimed exclusively at easing integration among the Brazilian Tax Administrations.

Among the strategic projects outlined in Chart 1, some actions were selected for a deeper analysis in this document, given both the importance of the project and the intensive use of information technology or the participation of other federal institutions. Thus, in the following section, the SPED, e-Process, the National Synchronized Cadastre, and the National Plan to Improve Taxpayer Services - in their virtual attention module -- will be explained in more detail.

3. EXAMPLES OF SPECIFIC PROJECTS

3.1 Changes to Work Processes in Administrative Trials

Before we discuss the e-Process, we will present some changes that have been made in the administrative arena.

a) Background

Among the institutional objectives of the RFB, we include the increase in the efficiency and efficacy in the preparation, analysis, and trial of administrative and fiscal processes with the commitment to expediting and giving quality to such trials.

In this regard, the search for an adequate measure contrasting with the degree of complexity of the administrative and fiscal processes and, therefore, with the estimate of the time necessary for the administrative trial, has been a constant since the creation of the Office of Processes in 1994.

Even though it is difficult to conceptualize, the possibility of drafting models that explain a substantial part of such complexity through objective criteria that can be compiled in the warrants right before the trials is unquestionable.

Such models, insofar as they are being implemented and improved, analyzing the historical data of the trials, enable the reduction of the uncertainty inherent to the contrast of values that, in principle, would be eminently subjective, as the complexity of the administrative and fiscal processes seem to be, regarding the time not used in their trials.

b) Current Management

The RFB is currently promoting the revision of the parameters for the determination of the degree of complexity of the processes, analyzing the historical data of trials, in a detailed fashion, managing to correct the distortions resulting from the use of certain parameters in the determination of the degree of complexity of the processes.

As an analysis strategy, hybrid models that associated statistical model solutions (generalized linear regression, independent for each table) with technical interventions done by representatives of each tax area, based upon their labor experiences, were used.

The results suggest that the parameters revised and the new ones that are proposed, if implemented, will reduce the distortions present in the determination of the degree of complexity of the processes. In this regard,

using simulations with a database of national processes encompassing 2005 and 2006, it was observed that the difference between the actual number of hours of the trials and the estimated ones attributed to the degree of complexity dropped from the current -18.04% to -1.57%, and the dispersion of these variables was reduced by 59% (current MSE of 32.21 to an estimated MSE¹ of 13.12), according to the tables presented in the section of results.

c) Technical analysis

Database

The database used was made up of 61,208 records resulting from the historical and statistical collection of data of the CP² system, nationally consolidated in October 2007.

Methodology

Contrasting measures of the quality of results

The selection of the most adequate model, like the contrast of the quality of the results obtained, entails the use of one or more measures of comparison that represent the characteristics expected for the results of the analysis.

In this regard, the basis of the search for the ideal model expected was the reduction of the distortions between the actual number of hours of the trial and the estimated number of hours (associated to the degree of complexity), leading to the following actions: i) reduction in the difference observed between the averages of the estimated number of hours for the models and the actual number of hours reported by the judges for each one of the parameters;³ ii) minimization of the dispersion presented between the estimated and actual numbers of hours.

In this way, the two measures of contrast defined next to represent the aforementioned actions, respectively, were used:

¹ Mean Square Error is the measure used in this work.

² The Process Control System (CP) is one of the systems used to control the flow of administrative processes in the area of Federal Revenues of Brazil.

³ Due to the decision of not changing the structure of the CP in this first part of the work, the restriction of keeping fixed the groups of parameters of the existing tables that are outlined in Decree SRF No. 1.097/2005, being able to change only the weights and descriptions of the parameters of each table, is imposed.

a) for the measurement of the difference - item (i) above - the average deviation per group of parameters, defined as the percentage deviation in relation to the average of the estimated number hours, for each group, between the average of the actual number of hours and the average of the estimated number of hours, was used;

b) for the deviation of the dispersion, the mean square error (MSE), defined for the processes of each group as the average of the square of the deviation of the estimate, was used. Instead, the deviation of the estimates is defined as the difference between the estimated and the actual number of hours for each process.

Mathematical Model

The objective was to estimate the time necessary for the decision of the process, given the characteristics that appear in the groups of parameters.

Such a phenomenon can be statistically modeled considering the hours spent in a trial as wasted time, randomly, to reach a certain distance associated, in the specific case, to the degree of complexity of the process. In this regard, the larger the complexity associated to the process (the distance to be run will be larger), the longer will be the expected time of work for the trial.

In this formulation, the expected time for the trial of the process has a statistic distribution known in literature as the Inverse Normal or Wald distribution.⁴

Thus, a generalized linear model (GLM), independent for each table, with identity as a function of relationship and Inverse Normal distribution family, using the actual number of hours used in the trial as the depending variable and the parameters that appear in each one of the aforementioned tables as the explicative variables, was used.

Empirical Model

The mathematical models obtained, one for each group of parameters, were criticized by the representatives of each type of tax over the detection and correction of technical inconsistencies. Even though it adds a difference to the final results, such a procedure is necessary insofar as the mathematical models fail to show all the forms related to the complexity of the trial process.

⁴ Weisstein, Eric W. "Inverse Gaussian Distribution." in MathWorld--A Wolfram Web Resource. <http://mathworld.wolfram.com/InverseGaussianDistribution.html>

Thus the intervention of the technician representative of each group of taxes (tables) with the ability of detecting and proposing alternatives for the inconsistencies that may be present is indispensable.

d) Results

The following table presents the current situation of the average percentage deviations, for the table of Decree SRF No. 1.097/2005, of the actual number of hours in relation to the number of hours attributed to the degree of complexity of the processes.

Table	Frequency	Actual hours	hp_degree	Deviation (%)
1	18.265	16,16	19,29	-16,23
2	27.792	7,43	8,59	-13,45
3	4.285	13,93	23,93	-41,79
4	1.023	20,38	26,96	-24,41
5	2.291	14,61	9,97	46,57
6	4.693	5,31	8,24	-35,58
7	2.859	17,25	20,64	-16,42
Total	61.208	11,27	13,75	-18,04

It is at once noticed that all deviations are above 10% and even above 40% in some cases. Such fact points the need to make adjustments to the complexity evaluation tables, justifying the revision of parameters.

With the implementation of the proposed models, the new average percentage deviations of the actual number of hours in relation to the number of hours attributed to the degree of complexity of the processes (estimated hours) went below 1%, with the exception of the processes of Table 5, whose reduction was from 46.57 to 14.67 percentage points. Such results suggest that the models proposed will reach the first goal of reducing the difference between the average of actual number of hours and those attributed to the degree of complexity.

Also regarding the measurement of the dispersion used, we notice an improvement in the performance of the total amount of (estimated) models proposed in relation to the current ones. With the models proposed, we managed to substantially reduce the dispersion between the number of hours actually worked and the estimated number of hours projected by the models.

Thus, according to the results, the implementation of new sets of parameters will drastically reduce the current distortions in the evaluation of the degree of complexity of the processes.

3.2 Federal Revenues Digital Process of Brazil (e-Process)

a) What is e-Process?

The Secretariat of Federal Revenues of Brazil - RFB - is developing an electronic process system called e-Process. This system eliminates the use of paper in procedural actions carried out in the administrative realm in the form of petitions, document submittal, and presentation of consultations.

The system will integrate and control all the phases of the fiscal credit macroprocess, ranging from the fiscal launching and going through the taxpayers' resources and the trial of administrative processes, up to the final collection of the tax credit without the need to print a single sheet of paper.

Beginning with this electronic tool, taxpayers will be able to consult tax legislation and find a solution to their consultation in an efficient and safe way, bringing forth more legal security to the treasury-taxpayer relationship.

The digital signature will enable taxpayers to submit procedural pieces and digital documents to make up the e-Process or the e-Query through the Virtual Taxpayer Service Center (e-CAC) to the e-mail address of the RFB -- www.receita.fazenda.gov.br.

Taxpayers will also be informed of the procedural actions electronically through their electronic e-mails available in the e-CAC. All taxpayers, individuals or companies, bearers of e-CPF or e-CNPJ Digital Certificates or any other certificates issued by the Certifying Authority accredited by the ICP-Brazil. Access through digital certificates guarantees the authenticity of the transactions.

The implementation of the e-Process is making progress to enable taxpayers and professionals of the area to avail themselves of numerous advantages, because they will be able to follow up on the steps of the process and carry out procedural actions at a distance - from their commercial establishments, offices, or homes - via the worldwide web.

The System represents savings, expedience, security, and transparency derived from the use of the e-Process in the area of Federal Revenues.

In the development and implementation of the system, the following basic principles are being observed: i) guarantee of transparency and traceability, with commitment and responsibility of each public action; ii) the elaboration of a generic and flexible system, allowing the parametrization of the specificities of each sector, type of unit, or competent body; iii) reduction of excess bureaucracy through the decentralization of power from those who wield it, guaranteeing further control and management of processes.

b) Background

The idea of working with digital processes was conceived in the 5th Fiscal Region based in Salvador/BA in mid-2003.

In 2004, the idea was adopted by the General Technology Coordinating Board, COTEC, and in 2005, the development of the process was chosen to be a priority project for the RFB.

In March 2006, the first digital process was created in the Federal Revenues Office of Brazil - Salvador DRF, the unit that was chosen as a pilot for the implementation of the system.

In October 2006, the first electronic process was tested in the Office of Federal Revenues Process - DRJ of Salvador.

In July 2008, the dissemination of e-Process in the 22 units of the RFB and the Taxpayers Council began.

In 2009, the dissemination will be done in the other units and the National Finance Prosecutor's Office -- PGFN.

c) Current management

There already are more than 3,500 digital fiscal processes in the units to be contemplated. In addition, in the pilot program in Salvador, approximately 90% of the new processes created with fiscal credit are already in digital format.

The expansion of the pilot Project to the 22 units of the RFB and the Taxpayers Council - CC - must end in late January 2009.

The development of the **Proc Web** module as part of e-Process, which is being implemented since December 2008, will enable the migration from paper processes to digital processes.

All the units contemplated in the first phase of the expansion of the e-Process were already trained and implemented. The only one remaining is Belem, which was scheduled for January 2009. The **Proc Web** pilot began in the DRJ of Ribeirao Preto/SP, incorporating functions of the DRJ's and CC's and opening the system to the control of 100% of processes in digital media and paper.

The following table shows how the existence of digital processes in the units already contemplated in the system:

Launching Units	17-Sep-08 Stock	23-Sep-08 Stock	10-Oct-08 Stock	05-Nov-08 Stock	28-Nov-08 Stock
DRF and DRJ/Salvador	2,249	2,274	2,226	2,336	2,536
DRF/Felipe de Santana	19	20	39	47	35
DRJ and DRJ and DRJ/Rio de Janeiro	2	5	106	105	109
DRF and DRJ/Ribeirão Preto	28	29	128	151	171
DRF and DRJ/Curitiba	19	37	149	192	259
DRF and DRJ/Brasília	8	17	90	106	128
DRF and DRJ/Belo Horizonte			39	73	168
DRF and DRJ/Fortaleza				66	76
DRF and DRJ/Recife					61
DRF/Uniquiana and DRJ/Santa Maria	Implementation 01 a 05/12/2008				
DRF and DRJ/Belem	Implementation 19 a 23/01/2009				
Total	2,323	2,392	2,777	3,045	3,549

In 2009, the second expansion of the **e-Process** will begin, contemplating most officers and inspector's offices of the RFB. In addition, the development of the remaining modules will end. To do so, the team that is developing the project, under the coordination of Marcelo de Souza Silva, the Fiscal Auditor of Federal Revenues of Brazil, listed the following priorities:

- 1- Manage the errors and make the necessary adjustments, many of which are caused by the implementation of the new version of the system.
- 2- Purchase and rent equipment for the other units. The Programming and Logistics General Coordinating Board, Copol, is finishing the purchasing projects (monitors and plaques) and the renting projects (production scanner per administration unit).
- 3- Search for multitasking with layers of software that enable a better image quality in the smallest size possible, with automatic brightness and contrast adjustments.
- 4- Increase the investment in infrastructure, especially in the creation of local cache memory for the increased performance in the display of images of a document, reducing the need to increase the Internet band.
- 5- Give e-Process access to the PGFN, with the standardization of digital certification, which also remains pending with the Disin/Cotec.

d) Expected results:

With the implementation of the **e-Process**, both society and the Tax Administration must obtain significant benefits. We can outline these among the most important ones:

1. Increase in tax collection due to the drastic reduction in the time it takes to enter a digital administrative process in the realm of contentious and fiscal execution.
2. Reduce bureaucracy at the RFB in terms of easy steps taxpayers will have to take to accompany and view the process and the carrying out of procedural actions via Internet.

TOPIC 3 (Brazil)

3. Availability, security, expedience, standardization, and automation of bureaucratic procedures.
4. Direct saving of budgetary resources for public administration.
5. Reduction in the procedural times according to the initial expectation shown in the following table:

Item	Framework of action	Reception and instructions (days)	Reduction goal	Judgment (days)	Reduction goal	Execution and return (days)	Reduction goal	Total time (days)
1	Paper process -- current situation	134		320		100		554
2	Implementation of digital processes	100	30%	216	30%	110	30%	544
3	Integration services of judg. with CT	100		200		104	30%	504
4	Reception of petitions via e-CAJ	75	30%	200		104		479
5	Integration with the W Decision System	75		230	30%	104		489
6	Electronic Compendiums	23	70%	230		104		357
7	Electronic decisions PPA/CCF/Calha	23		60	70%	104		287
8	Electronic decisions CTR/CAJ/STJ/STF	23		60		20	70%	223

e) Achieved results

The use of e-Process is already substantially reducing the procedural times, but it is still too early to quantify if the reduction goals outlined in the previous table will be achieved.

Insofar as new units are integrated into the system and the new statistics on stock and procedural flows are available, it will be possible to accurately quantify the gains obtained from the implementation of the digital administrative process in the RFB.

3.3 National Synchronized Cadastre (CadSinc)

a) What is the National Synchronized Cadastre?

The National Synchronized Cadastre (**CadSinc**) is the integration of the cadastral procedures of corporations and other institutions in the Tax Administrations of the Union, the States, the Federal District, and Municipalities, as well as other organizations and institutions that are part of the business registration and legalization processes in Brazil.

One of the pillars of the **CadSinc** is the use of the registration number in the National Corporations Cadastre (CNPJ) as the identifier in all sectors of the government.

As a shared solution among the very different organizations involved in the registration and formalization of companies and other institutions, the **CadSinc** is not a single cadastre, but a synchronization among the various existing cadastres - they all show the same cadastre information, respecting the demands or organizations and (competent) institutions in relation to the need for specific information from each one.

The main objectives of the **CadSinc** is the simplification and streamlining of the processes of registration, modifications, and closure of corporations and other institutions (economic entities), leading to a reduction of costs and terms, in addition to the guarantee for further transparency in all processes and the standardization of the cadastral information of corporations and other institutions, enabling them to act with further efficiency and efficacy.

In the construction of the Synchronized Cadastre and according to Cooperation Protocol ENAT nº 01/2004, the following premises were observed: a) single data entry; b) independent, albeit synchronized databases; c) reciprocity in the acceptance of the legislation of each signatory institution; and d) adoption of the registration number of the National Corporations Cadastre (CNPJ) as the cadastral identifier of the taxpayers of the ICMS and ISS.

With the Synchronized Cadastre, it is much easier and faster for entrepreneurial citizens to open a company. After registering the charter, the interested party must fill out and forward the registration petition to the CNPJ through one of the available applications. If the petition is accepted, the inscription will be ready not only at the CNPJ, but also at the pertinent State and/or municipalities.

In the States where there are agreements with the Trade Tribunals, entrepreneurial citizens can submit the registration petition along with the registration petition of their charters. If the documents submitted and the data transmitted are correct and if they made the petition in a single place, the companies will therefore be registered and the registration at the National Corporations Cadastre (CNPJ) and the state and/or municipal registrations generated simultaneously will be done all at once!.

In addition to the aforementioned benefits, it is also possible to use the state passwords or digital certificates to take action at the cadastre. In a simple, easy, and quick step, this electronic signature eliminates the need to authenticate the signatures and often eliminates the need to appear before the body (Federal Revenues, SEFAZ⁵, SEFIN⁶, and so on) to demand the carrying out of the cadastral action (the change is processed automatically. Example, the change to the commercial name, telephone number, electronic mail, and so on).

⁵ *Finance Secretariats of the States*

⁶ *Finance Secretariats of the Municipalities*

Thus, when the Synchronized Cadastre is fully implemented, all Government Institutions related to Tax Administration, at all levels, and the registration of corporations will be working in a synchronized fashion; in other words, citizens will submit their petitions in one way only.

b) Background

The search for the simplification in cadastral processes in the three levels of Government began in 1990s, mainly beginning with the signing of the ICMS Agreement 08/1996, through Normative Directive SRF No. 27, which created the National Corporations Cadastre (CNPJ), replacing the old General Taxpayers Cadastre (CGC). The CNPJ began as a proposal to streamline the resources and procedures of the various existing cadastres and prior to the joining of all state and municipal tax administrations, with a later national integration of the tax cadastre. Meanwhile, due to legislation matters and operational difficulties attributed to the time, especially in the technological area, the CNPJ failed to achieve the expected objectives.

The simplification process of cadastral procedures takes on a new impetus in late 2003, when Constitutional Amendment No. 42 was approved. It introduced paragraph XXII in Article 37 of the Federal Constitution, establishing that the new tax administrations of the Union, States, the Federal District, and Municipalities act in an integrated fashion, even sharing fiscal cadastres and information.

In order to heed this constitutional mandate, in July 2004, the First National Meeting of Tax Administrators (ENAT) was held in Salvador. It gathered the heads of the Federal, States, Federal District, and Municipal Capital Tax Administrations. The objective of the meeting was to search joint solutions for the three levels of government enabling integrated actions and sharing fiscal and cadastral information among the Tax Administrations. The main document resulting from this meeting was the ENAT Cooperation Protocol No. 01/2004, whose objective was the construction of a cadastre that would heed the interests of the respective Tax Administrations.

Along the same line of simplification of cadastral procedures, rules encompassing the integration of procedures among the bodies responsible for the registration and legalization of businessmen and corporations were established for micro- and small-sized companies through Complementary Law 123 of December 14th, 2006. The goal was to prevent the duplicity of requirements for citizens, while guaranteeing the setting into motion of the single entry of cadastral data (in order to keep businessmen or corporations from having to make the same petition for cadastral actions - registration, changes, closures - at the various institutions involved). The same Complementary Law also defined that the databases of the institutions that

are involved in the process of registration and legalization of corporations will keep independent databases, which reinforced the idea of the construction of a Synchronized Cadastre.

c) Current Management

The implementation of the National Synchronized Cadastre is being done gradually. Currently, various Tax Administrations are already participating in the **CadSinc**, and in addition to them, other organizations and institutions that are involved in the process of registration and opening of corporations and other entities have the power to join the project, such as Commercial Courts, Fire Departments, Sanitary Overseeing Offices, and so on.

Thus far, the CadSinc has already been implemented in the States of Alagoas, Bahia, Maranhao, Minas Gerais, Para, Rio Grande do Norte, and Sao Paulo and in the municipalities of Belem/PA, Belo Horizonte/MG, Curitiba/PR, Natal/RN, Salvador/BA, Sao Luis/MA, and Vitoria/ES. There already are signed agreements, with their implementation schedules in draft (Phase III, first half of 2009), with the states of Acre, Amazonas, Ceara, Distrito Federal, Mato Grosso, Mato Grosso do Sul, Paraiba, Pernambuco, Piaui, Parana, Roraima, Santa Catarina, Sergipe, and Tocantins and the municipalities of Aracaju/SE, Barra Mansa/RJ, Boa Vista/RR, Campo Grande/MS, Montes Claros/MG, Petropolis/RJ, Pinhais, Recife/PE, Sao Paulo/SP, Rio de Janeiro/RJ, Santarem/PA, and Sorocaba/SP. There also are signed agreements, but with the schedule still undetermined, with the states of Amapa, Espirito Santo, Rio Grande do Sul, Goias, Rio de Janeiro, and Rondonia and the municipalities of Bragança/PA, Camaçari/BA, Contagem/MG, Maceio/AL, Manaus/AM, Palmas/TO, Piraju/SP, Ribeirao Preto/SP, Santos/SP, and Sete Lagoas/MG.

d) Expected results

With the implementation of the Synchronized Cadastre, the following results are expected to be obtained:

1. **From the point of view of citizens:** i) reduction of the terms and procedures to create, modify and close companies; ii) further transparency in the process; iii) simplification and standardization of compliance with obligations; iv) less need to go to the involved institutions; and v) reduction in the expenses for document copies, mail, and filing.
2. **From the point of view of Public Administrations:** i) more stimulus for the formalization of businesses due to a reduced creation cost; ii) reduction of operational costs; iii) further integration, quality, and standardization of information; iv) improvement of the image before society; and v) more effectiveness of fiscal actions.

e) Achieved Results

The use of the Synchronized Cadastre enabled a substantial reduction in the period between the petition and the registration at the Federal Revenues of Brazil, in state and/or municipal revenues, and in states and municipalities where the system had already been implemented.

As shown in the following chart, in Bahia, for instance, the Cadastre reduced to only 2 or 3 days the period between the petition and the formalization of the registration, which used to be 7 days. This reduction in time was verified, more or less, in the other offices of state and municipal revenues.

Estado/Município sincronizado	Tempo total para inscrição na RFB, Estado e/ou Município (em dias)	
	Antes do CadSinc	Depois do CadiSinc
BA	7	2 a 3
MG + Belo Horizonte	20	5 (só município) a 15 (estado + município)
PA + Belém	30 ou mais	10 a 20
RN + Natal	30 ou mais	10
SP	20	10-15 dias capital, 3 dias demais
Vitória	7	3

3.4 Public Digital Accounting System (SPED)

a) What is SPED?

Created by Decree No. 6.022 of January 22nd, 2007, the Public Digital Accounting System (SPED) Project, in general terms, consists of the modernization of the current system of compliance with accessory obligations, submitted by taxpayers to tax administrations and the oversight bodies, using the digital certification in order to obtain a signature for electronic documents, thus guaranteeing their legal validity in digital form. The system is one of the projects that make up the 2007-2010 Growth Acceleration Program (PAC) of the federal government of Brazil.

The SPED is made up by three major subprojects: Digitally Recordable Accounting (ECD), the Digital Fiscal Accounting (EFD), and Electronic Invoicing (NF-e). In this section, we focus on the issue of accounting, while the NF-e will be broached in a separate section, because it is in a more advanced stage.

The new system represents an integrated initiative by the tax administrations at the three levels of government and is a partnership with 20 institutions, including public organizations, class councils, civil associations and institutions, in the joint implementation of the project.

For the implementation of the SPED, the following premises were adopted: i) promote a better business environment for the country's companies; ii) eliminate unfair competition by increasing competitiveness among companies; iii) the official document is the electronic document with legal validity for all purposes; iv) use the Standard ICP Brazil Digital Certification; v) promote information sharing; vi) reduction of costs for taxpayers; vii) minimum interference in the taxpayers' environment; and viii) make available applications for the issuance and transmission of Digital Accounting and NF-e for the optional use by taxpayers.

Among the objectives, we have promoting further integration of the treasuries by sharing accounting and fiscal information, simplifying compliance with the taxpayers' accessory obligations since the obligations with various institutions will be complied with in a single transmission, and improving oversight, which will be able to identify illegal tax-related actions faster, given the quick information access.

b) Background

Just like in the other cases involving integration among treasuries, the initial reference is Constitutional Amendment No. 42 of December 19th, 2003, which established that the tax administrations of the Union, states, Federal District, and municipalities act in an integrated fashion, even sharing their cadastres and fiscal information.

In later meetings by tax administrations, joint actions were delineated to comply with the constitutional mandate. Thus, Cooperation Protocols were signed at the ENAT II - National Meeting of Tax Administrators - in order to develop and implement the Public Digital Accounting and Electronic Invoicing System.

Regarding the issue of the Improvement of the Tax System, the implementation of the Public Digital Accounting System (SPED) and Electronic Invoicing (NF-e) in two years is among the measures announced by the Federal Government on January 22nd, 2007 for the 2007-2010 Growth Acceleration Program (PAC), because the two projects are aimed at removing administrative and bureaucratic obstacles to economic growth, promoting a business environment for the country, and reducing the "Brazil cost."

c) Current Management

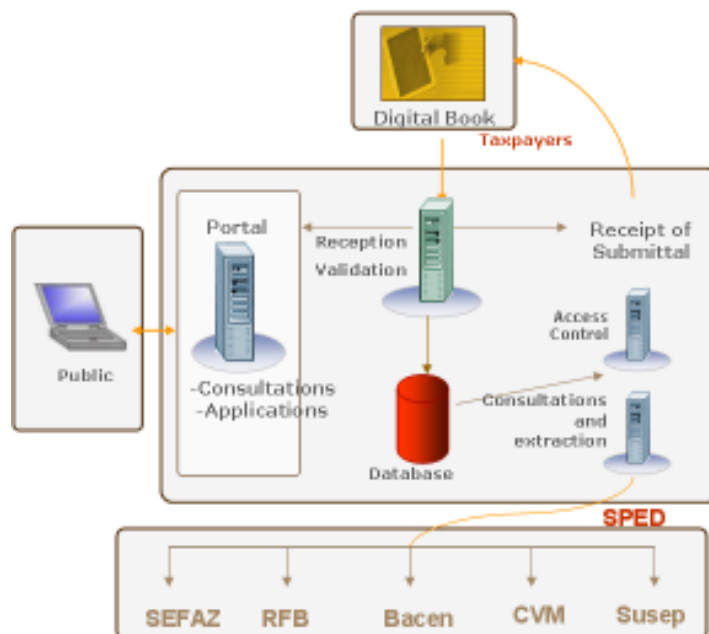
Regarding the subprojects dealing with accounting, it can be established, in a very simplified way, that in both cases, it is the replacement of the current fiscal and accounting books for their digital equivalents.

In the terms of Decree No. 6.022/2007, the term for the implementation of the ECD began on 01/01/2008 for companies subjected to the differentiated economic-tax accompaniment and subject to Real Profits.⁷ On 01/01/2009, the system began encompassing all the companies subject to tax on Real Profits.

In a simplified manner, the operation of the accounting SPED is shown in Figure 1 in the following page.

Regarding the EFD, the definition of the companies obligated to submit digital fiscal accounting is slated for the first half of 2009.

Figure 1 - Digitally Recordable Accounting System



d) Expected Results

The benefits are varied and favor both the Tax Administrations and taxpayers. The following stand out among the results:

- Cost reduction with the elimination of issuance and storage of paper documents;
- Elimination of paper;

⁷ Characteristics of the tax system of the largest companies once it demands fully recordable fiscal accounting.

- Cost reduction with the streamlining and simplification of accessory obligations;
- Standardization of the information taxpayers give to the various federal units;
- Simplification and expedition of procedures subject to control by the tax administration (foreign trade, special systems, and transit among federal units);
- Strengthening of the control and oversight through the exchange of information among the tax administrations;
- Quicker access to information;
- Reduction in administrative costs;
- Improvement in the quality of information;
- Possibility of cross reference between accounting and fiscal data;
- Availability of authentic and valid accounting copies for various uses and concomitants;
- Reduction of the "Brazil Cost;"
- Improvement in the fight against evasion;
- Preservation of the environment through a reduction in paper consumption.

The main difficulties refer to problems of coordination among organizations during the implementation of the SPED. These problems are being overcome, given the common interest of the organizations involved, the leadership of the RFB, and the acceptance by society, which has been very positive since the system will reduce a large part of the accessory obligations of taxpayers, as well as will eliminate unfair competition in the economy. Even so, there are some sectors that have criticized the project for its allegedly legal weaknesses and an exacerbated increase in the power of oversight.

e) Achieved Results

Regarding the results, the SPED in the area of accounting is still in its initial execution stage, but it should start gaining ground beginning in 2009 with the compulsoriness of submission by all companies subject to Real Profits, which equals approximately 180,000 taxpayers.⁸ In the period between 01/01/2008 and 04/11/2008, 50 files were submitted with the Accounting SPED.

3.5 Electronic Invoicing (NF-e)

a) What is Electronic Invoicing (NF-e)?

The NF-e is a document issued and stored electronically that exists only in its digital version. The objective is to document an operation of merchandise transfer and service rendering between two parties, whose legal validity is

⁸ Data of the DIPJ/2004.

guaranteed by the digital signature of the issuer and the reception, by the treasury, before the occurrence of a Generating Event.

The objective of the NF-e is the implementation of a national electronic fiscal document model that will replace the issuance of a fiscal document in paper, with legal validity guaranteed by the digital signature of the issuer, simplifying the accessory obligations of taxpayers while enabling the follow-up in real time of the commercial operations by the Treasury.

b) Background

As is the case with one of the subprojects of the SPED, the origin of the NF-e is also found in Constitutional Amendment No. 42 and its implementation, with the signing of protocols of the II ENAT, and is part of the 2007-2010 Growth Acceleration Program (PAC) of the federal government.

c) Current Management

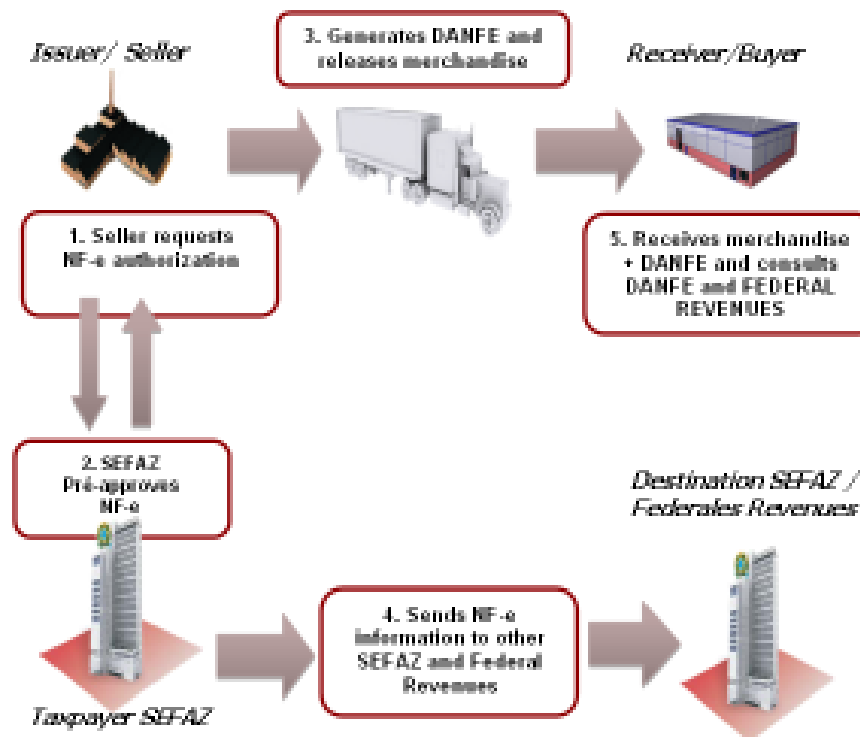
The NF-e has already been implemented in some states and economic sectors, according to the following chart, but its coverage will substantially increase beginning on 01/04/2009.

Chart 02 - Sectors already Implemented

Date	Sectors
Beginning on 01/04/2008	<ul style="list-style-type: none"> - cigar makers; - cigar distributors or wholesalers; - liquid fuel manufacturers, producers, and importers; - liquid fuel distributors - retail transporters and resellers
Beginning on 01/12/2008	<ul style="list-style-type: none"> - manufacturers of automobiles, vans, SUVs, trucks, buses, and motorcycles; - cement manufacturers - manufacturers, distributors, and wholesalers of allopathic medicines for human consumption; - cold containers and wholesalers that promote the sale of fresh, refrigerated, or frozen meat from cows, pork, buffalo, or poultry; - manufacturers of alcoholic beverages, including beer and draft beer; - refreshment manufacturers; - agents that play the role of electric energy providers in the area of the Electric Energy Commercialization Chamber; - manufacturers of semi-finishes, plain or long laminates, re-laminates, and wire drawing and sectional steel; - manufacturers of first fusion steel.

The following figure is a summary of how the NF-e Works:

Figure 3 - Electronic Invoicing System



When a buyer and seller conduct a business transaction, the later with its digital signature requests authorization via Internet for the issuance of the NF-e to the State Finance Secretariat from its jurisdiction. The SEFAZ in turn returns the pre-validated NF-e receipt. This Use Authorization notice enables the transportation of merchandise. Beginning with this authorization, the Auxiliary Electronic Invoice Document (DANFE) is printed. The NF-e information will be transmitted by the SEFAZ of the taxpayer to the SEFAZ of the destination of the merchandise and Federal Revenues. The SEFAZ will make available for consultation, through the Internet, the NF-e information.

The DANFE is a simple graphic representation of the NF-e, can be printed in common paper, and is used to cover the transfer of merchandise and NF-e accounting auxiliary when the addressee does not participate in the system. By itself, it has no legal value, and its validity is conditioned upon the existence of the NF-e.

d) Expected Results

It is estimated that the adoption of the NF-e will bring positive results for all the parties involved. The following results stand out: *Benefits for the Selling Taxpayer - NF-e Issuer* (reduction in the costs of paper, printing, and storage; simplification of accessory obligations; reduction in the time trucks stop at fiscal offices; incentive for the use of electronic relations with clients - B2B); *Benefits for the Buying Taxpayer - NF-e Receiver* (elimination of the digitalization of invoices in the reception of merchandise and incentive for the use of electronic relations - B2B); **Benefits for Tax Administrations** (increase in the trustworthiness of the invoice, improvement in the fiscal control process, further information exchange and sharing among treasuries, reduction in the in-transit merchandise invoice control process, and support for fiscal electronic accounting projects of the RFB (Public Digital Accounting System - SPED)).

e) Achieved Results

Regarding the results according to the sites that follow up on the program⁹ on 15/01/2009, 81 million NF-e's totaling more than R\$1.6 quintillions have already been issued.

3.6 Virtual Taxpayer Service Center (e-CAC)

a) What is the Virtual Taxpayer Service Center?

In order to provide more options to render services to taxpayers, the Secretariat of Federal Revenues of Brazil, RFB, on 12/12/2005, through Normative Directive No. SRF No. 580, created the Virtual Taxpayer Service Center, called **e-CAC**, which is accessed through the RFB portal in the worldwide web.

To access the **e-CAC** services, it is necessary for taxpayers to have the e-CPF or e-CNPJ, or any certificate of corporation or person from the Brazilian Public Password Infrastructure ICP-Brazil.

Citizens can access **e-CAC** from their homes or offices via the Internet through the use of Digital Certification technology, which guarantees the safety and integrity of the transactions done.

The **e-CAC** operates 24 hours a day, seven days a week in order to provide more comfort to taxpayers, without having to move and stand in line. It also increases the time available for his attention considerably.

⁹ <http://www.nfe.fazenda.gov.br/portal/Default.aspx>

The services rendered through the **e-CAC** are automatic and are grouped according to the nature and type of taxpayers - corporations or individuals - and can be accessed, respectively, with the use of their e-CPF and e-CNPJ Digital Certificates, or through their representatives, as long as they have previously been listed in the cadastre through the specific service. It is certified that an individual, with his e-CPF, will be able to use the applications for the corporation for which he is responsible before the CNPJ.

The digital certificate is the tool that enables taxpayers to access the services protected by the fiscal secret in the **e-CAC**. It is a process that guarantees that the information exchanged in electronic transactions will not be accessed by third parties and that they will not be changed in the route they follow. Thus, the certificate guarantees the identity of the origin and destination of the information.

The certification process generates an electronic file that identifies who the owner is, which in an electronic means, is the equivalent of an identification card.

In order to obtain the e-CNPJ or e-CPF digital certificate, taxpayers must choose one of the companies authorized by Federal Revenues to issue an identification card.

b) Current Management

Currently, the e-CAC has the following services, among others, at taxpayers' disposal:

1. POSTAL ADDRESS:

e-CAC users will be able to receive completely safe and reliable messages from the RFB, either general or personal, reminders for compliance with accessory obligations, and notices on the deadlines to pay taxes, as well as pending actions present in the RFB systems. Information of the exclusive interest of taxpayers who have a POSTAL ADDRESS will be able to circulate fully guaranteeing the inviolability of the fiscal secret.

2. CADASTRES:

- a) **CPF:** it is available to consult its cadastral data, as well as the possibility of updating some of these data, even the address.
- b) **CNPJ:** it is available to consult the cadastral situation of companies and the issuance of the registration receipt.

3. RETURN COPY:

- a) **Returns of Individuals:** taxpayers will be able to retrieve copy of the return filed via Ingresosnet in the last few years, whether IRPF, ITR, and IRRF.
- b) **Returns of Corporations:** taxpayers will be able to retrieve copy of the return filed via Ingresosnet in the last five years, whether IRPF, ITR, and IRRF.

4. SUBMITTED RETURNS:

Individuals and corporations will be able to view the last tax returns submitted, as well as to make consultations on their processing (processing extract) and on the amounts to be returned for the following types of tax returns: DIRPF - Individual Income Tax Return; Dirf - Source-Withheld Tax Returns; DIPJ - Statement of Fiscal and Economic Information of Corporations; Simplified PJ - Simplified Corporate Returns; DITR - Rural Property Tax Returns; DCTF - Federal Tax Debit and Credit Returns.

5. PAYMENTS:

e-CAC users will be able to consult the list of payments made, print payment receipts (a very useful option when the original DARF is lost), and correct mistakes made when the DARF or the DARF-SIMPLE are filled out. The corrections allowed will be fully automatic in case the payments are available.

6. PARTIAL PAYMENTS:

Enable e-CAC users to make partial debit payments at Federal Revenues, payments dealing with federal taxes and dues under the current legislation.

7. ELECTRONIC POWER:

Enables e-CAC users to delegate to third parties who have their Digital Certification their representation at the Federal Revenues. Individuals and corporations will be able to do the following: i) select what available services their representative can access and also specify the date of expiration of his power; ii) consult the powers previously registered by taxpayers in favor of their proxies, as well as the powers granted to third parties on their behalf, being able to view their data and respective expiration dates; and iii) cancel those powers they do not wish to keep.

8. FISCAL SITUATION:

e-CAC users will have detailed access to their fiscal situation at Federal Revenues. In addition to being able to view their cadastral and fiscal data, taxpayers will be able to obtain orientation on the regularization of their pending cases existing by chance.

9. SISCOMEX:

individuals previously registered at Federal Revenues will be able to conduct transactions regarding the Foreign Trade Integrated System, such as registration of legal representatives, exports, Mantra, imports, customs movement, and the use of the Manaus Free Zone.

The aforementioned services constitute only a small sample of what has already been implemented in order to ease the burdens of taxpayers and their communications with the Tax Administration. Federal Revenues will continue to work to broaden the universes of services to be rendered by means of the Virtual Taxpayer Service Center, e-CAC.

The complete list of services rendered by the e-CAC can be consulted in the following address: <http://www.receita.fazenda.gov.br/atendvirtual/defaultDemaisServicos.htm>.

c) Expected Results:

With the implementation of the e-CAC, both society and the Tax Administration must obtain significant benefits. The following stand out among the most important ones:

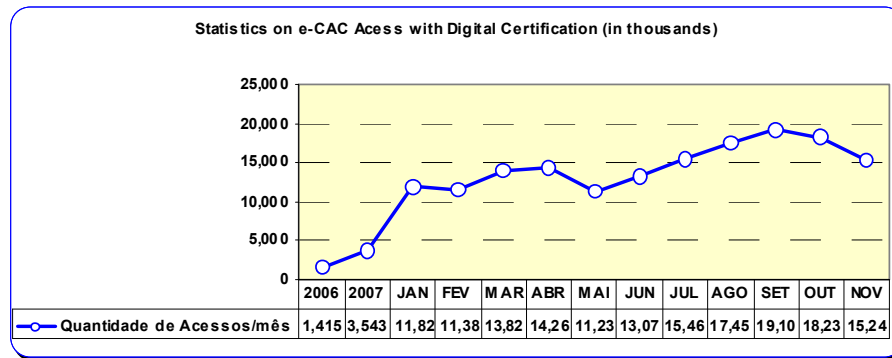
- i) **For taxpayers/citizens:** time saving, comfort, and practical sense as the services are available full time at the RFB site.
- ii) **For Tax Administrations:** reduction in operational costs, such as filing materials, among others. Reduction in the search for personal services at the Taxpayer Service Centers, enabling the change/qualification of servers to render more specialized services, thus contributing to reducing the time spent in lines, diminishing the average time of attention, eliminating repressed demand, and increasing the conclusion of cases.

d) Achieved Results:

The use of **e-CAC** substantially reduced the flow of taxpayers at Service Centers for Federal Revenues, reducing the time spent in lines and the average time of attention.

TOPIC 3 (Brazil)

The number of accesses has increased insofar as taxpayers become aware of the types of services already available via Internet. The following graph shows the statistics for digital certification accesses:



The major challenge is to also reduce personal attention even more, which reached 1.5 million taxpayers in 2008, and replace it by virtual attention.

4. FINAL CONSIDERATIONS

As we tried to show, the RFB has sought management solutions leading to a reduction in costs and simplification of the obligations of taxpayers while increasing efficiency in tax administration, as well as further promoting communications among States and Municipalities. It must be recalled that the integration among the Tax Administrations has not been too great in federal countries, especially in those that, like Brazil, have a high degree of fiscal decentralization.

The partnerships, protocols, and joint projects among the RFB and the state and municipal Tax Administrations represent progress in the country's institutional maturity, strengthening the actions of the State with more agile and powerful instruments against fiscal evasion and making the business environment more propitious for the citizens and corporations that try to operate in accordance with national laws.

Case study

Topic 3.1

**MANAGEMENT CONTROL AND CONSULTATION IN THE DGFIP,
TOWARDS A UNIFIED MANAGEMENT PLAN TO MEASURE
PERFORMANCE IN THE ACTIVITIES OF THE
TAX ADMINISTRATIONS**

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SUMMARY: Summary.- 1. A converging vision in the objectives.- 2. Principles and criteria established during reflection works.- 3. principles and criteria established during reflection works. 4. The plan defined in 2008

SUMMARY

The merger of the DGI and the DGCP into a new entity, the General Bureau of Public Finance, involved an evolution of the performance management plan. Currently the nine delegates, appointed by the General Directors and members of the Steering Committee are the local representatives whose main responsibility is to be the functional intermediary between the central government and the territorial officials. This paper presents on the subject of performance follow-up, the evolution of the doctrine of the two former bureaus towards the General Bureau of Public Finance (DGFIP).

Just before the end of 2007, during the preparation works for the merger of the General Bureau of Public Accounting (DGCP, in French) and the General Bureau of Taxes (DGI, in French) various workshops were organized and one of these workshops was on forms of management and the creation of networks. Its mission statement was to identify the stakeholders and the respective roles, and to propose the means for and the perspectives of governance adapted to local service networks, which guarantee at the same time the appropriation of strategic orientations,

proper missions' execution, the safety of the procedures and the indispensable maneuver margins of the future local bureaus of the DGFIP.

Workshop members were requested to draw proposals mainly referring to the contract basis relationship between the General Bureau and the local bureaus, as well as on the determination of the most appropriate level to:

- set in motion the dialogue on resources on the one part and on the other, management control;
- create a network of local services, concerning upwards-downwards information disclosure and the sharing of schemes.

"The analysis of this condition showed that each former bureau had significant expertise on the subject"

1. A CONVERGING VISION IN THE OBJECTIVES

- The operational reference level was the province, being the true level of responsibility in both administrations.

Notwithstanding, determinate activities were carried out inter-regionally or regionally:

- For example, in the former DGI, missions for the granting of authorization for special regimes. The examination of companies above certain business threshold falls within the inter-regional level (the DIRCOFI);
 - For example, in the former DGI, decentralized financial control of disbursement, the responsibility of the public management service and economic development linked to the regional prefect, are included in the regional level.
- Management principles for performance management (based on strategic objectives), information flow management and activity follow-up principles, were integrated into the culture of the two bureaus. The techniques implemented in management presented differences between both, although, with a strong relationship.

At both bureaus, the strategy and the commitments were set forth in a performance contract. These three-year documents cornerstone of the steering and management control plans, thus allowing to base the governance of the two Networks on the contract concept and therefore, be consistent with the complementariness of the annual performance report (RAP, in French) which structures accountability before Parliament through the law of the regulation.

Both bureaus subscribed to a results-based approach, which was developed since the 90's to keep in pace with the evolutions inherent to the each network, and this resulted in the establishment of performance contracts. These approaches allowed in both cases, prior to the appearance of the LOLF (financial charter), consistent with a contract-based approach.

2. DIFFERENT IMPLEMENTATION MODALITIES, BASED ON SIMILAR PRINCIPLES

At the DGCP, the contract-based approach was outlined at the central level and the regional/department level. Since its establishment, the program's operational budget (BOP, in French) was the vector of the contract-based approach between the General Bureau and the general payee treasurers (TPG, in French). The BOP gathers the group of objectives and resources that the TPG must manage. Therefore it refers to its performance dimension, the BOP is limited to RAP indicators, and it includes all the management indicators of the DGCP, that is, approximately twenty indicators stemming directly from the CPP. Target values were decided at the end of an annual consultation phase which regionally played the role of facilitators and coordinators - through a regional collegiate body of the TPG of the region - which was in fact a privileged interlocutor of the General Bureau. This BOP constitutes the mission statement and is at the center of the performance assessment plan.

At the DGI, the contractual dimension was also outlined between the central and provincial level:

- The interregional delegate, representative of the General Director, is globally responsible of management control. Therefore, the delegate is in charge of the validation and the diagnostic procedure of the action plan (DPA, in French) prepared by each provincial director when taking office. This procedure allows the establishment of two-year mission statements, signed by the interregional delegate and the provincial director, at the end of the exchanges made formal regarding the provincial application of the strategic orientations, from the analysis of prior results, the examination of the objectives and the plans of the priority actions;
- The CCP is applied operationally with a complimentary nature, through a performance direction contract (CDP, in French) signed between the interregional delegate and the provincial director at the end of each consultation phase, to establish the objectives and the resources with a three-year horizon, whenever it is relevant and possible. The director as the person responsible of the BOP in his/her province determines the objectives of the annual performance project, as well as the different connected actions.

In spite of the fact that these modalities differ in the form, they are very similar because they:

- Clearly respond to the same purposes (assign responsibilities and accountabilities, guarantee global coherence, and anticipate difficulties and possible corrective measures ...);
- Are based on the same demands (establish objectives at each level, identify action tools, develop action plans, assess results);
- Prefer an exchange and consultation logic.

Every Player Participates in Management Consultation and Performance Evaluation

Both bureaus organized - through interregional delegations or through the regional level - management consultation with their provincial heads. Plans are based on structured and documented files within a participation Framework which furthers the mobilization of the opinions of the group of players, under the sponsorship of a structure responsible of performing the synthesis.

At the DGCP these modalities were supported on the BOP procedure which consultation with the TPG goes through the regional level, and becomes its base.

Consultation Between the General Bureau and TPG (through the regional level)

With the enrollment in the annual Management cycle, the purpose of this consultation was to establish the performance objectives assigned to the heads of the provinces for the year $N + 1$, which are also part of the BOP. In general terms, the purpose was to optimize overall performance. This consultation was organized with the double purpose of allowing a fine definition of the potential that each one has (assurance of equality in the assessment perspective) as well as favoring the strategies that will be shared, specifically through local action plans.

Considering this double demand, the organization of the consultation was the responsibility of the TPG of the region, who is responsible, at the end of the consultation at the center of the collegiate body of the provincial TPG of the region, of formalizing before the General Bureau the objectives' proposals of the different provinces of their region. Proposals that are deemed insufficient in potential, a consultation begins immediately between the TPG of the region and the General Bureau. To guarantee an in-depth consultation process inside the regions and leave enough time for infra-provincial consultation, consultation with the regions takes place from mid-March to mid-July.

Consultation on the assignment of human and financial resources is based on the same plan by intervening - for the fifty provinces experiencing the regional approach of the assignment of resources - the TPG of the region as the coordinator

of the collegiate body of the provincial TPG. Once these assignments have been made, they are outlined at a provincial level.

Evaluation of Provincial Results and the Evaluation of Provincial Chiefs

This evaluation is done every two years, at the end of a process which highest Peak was the face-to-face meeting with the General Director or one of his deputies. The meeting refers to the analysis of the results obtained in the framework of the last two annual BOP and the global performance of the province (optimization of resources, advance of large projects and modernization actions ...). The performance aspect is analyzed base don a file established by the local level which data is corroborated by central services. At the end of the meeting, the evaluator sends a summary report indicating the points to be improved and which were discussed during the interview.

The Support of a Network of 100 Provincial Management Comptrollers before the TPG

This network is in charge of assisting in the formalization of the provincial performance strategy, analyzing department results and contributing towards managing the consultation in the regional method, of participating in the management of the consultation process with the base units (establishment of the objectives, infra-annual follow-up, evaluation) and developing heads of posts with the tools.

Consultation between TPG and Evaluation Units (accounting positions and services)

Also annually, this consultation begins in autumn in order to establish the objectives of the units before the beginning of the following year. It refers to BOP indicators, which depend on the structures in function of the missions exercised by each, to which a reduced number of complimentary indicators are added in terms of the operational management. TPGs have a possibility of customizing part of the Infra-provincial indicators to be applied, in function of local needs, selecting "a la carte" some indicators in the "indicators library." If the General Bureau explicitly requests to organize upwards consultation with the positions, the term of the consultation is adapted to the local context (determinate provinces end their consultation prior to the end of year n - 1, other prefer to couple the conclusion of the objectives with the evaluation-assessment developed in March). Consultation concludes by means of an objectives-resources letter (or mission statement) address to each person in charge. The evaluation-assessment begins according to an analogue logic: face-to-face meeting with the TPG and/or his deputy, to discuss the results obtained and the new objectives.

At the DGI, these modalities were articulated on the diagnostic procedure - action plan (DPA) where the inter-regional delegate, the General Director's representative was the central element.

Consultation between the Inter-Regional Delegation (by delegation of the General Director) and the Provincial Bureau

After signing the national CPP, the establishment of the local objectives results from the performance direction contract (CDP). This contract includes approximately twenty indicators. Since 2006 the procedure to establish the objectives is upwards (for "missions" indicators). Provincial directors propose goals through their inter-regional delegates, which have been incorporated by the General Bureau. Proposed goals are validated by the central level; however, a second review was necessary on some indicators for which the goals proposed by the directors were insufficient.

Once the initial validation of the CDP is done, information management is structured with a DPA conferences plan, and the same includes an annual management meeting, more or less detailed because the same is a DPA conference (that takes place when the "incoming director" takes office and then every two years) or an inter-session meeting. The DPA conference give place to a detailed balance on the provincial application of strategic orientations, the evolution of results, also allowing validation of the beginning of the strategic action plans proposed by the provincial director, under full responsibility. The intermediate management consultation that takes place after the conclusion of the "incoming director" procedure is above all a point in the realization status of the priority action programs defined by the director.

The Evaluation of the Results of the Provincial Bureaus

The inter-regional delegate also makes this statement in the framework of the DPA conference, which is held every two years. Its purpose is to perform an in-depth analysis of the results with regards to the objectives assigned in the performance direction contract and the eventual complementary commitments assumed by the provincial bureau during the previous conference. The meeting is an opportunity to perform a complete examination of the activity: application of the reforms of the structure, rationalization of the real estate park, resources optimization, the results of the group of missions, organization and work methods, steering and management, as well as social and professional consultation. This meeting results in the definition of new priority action plans that must be applied and also allows highlighting the efforts undertaken and the progress attained. After the meeting, the delegate and the director sign a mission statement, which makes formal the respective commitments.

Nine Inter-Regional Delegates Intervene in this Plan

The delegate has a work team that is formed by half a dozen of individuals, except Ile-de-France (Parisian region). Its role is to enforce management control at the provincial bureaus in its territorial scope. Regarding management control, delegations guarantee the enforcement of CPP in the form of multi-annual direction contracts, on the issue of resources. Adjustments on the objectives and the resources proceed. Finally, the delegate participates in the evaluation of the directors, carried out by the General Director. In addition to the management control role, delegates have other missions and specifically, the function of serving as a liaison between the General Bureau and the provincial bureaus, including the function of acting as a referral during determinate fields of activities, the coordination of the inter-regional fiscal control policy, as well as the specific role in the management of the executives.

Each provincial office has a structure in the Infra-provincial management control, under the authority of an executive.

In summary, at this initial stage of the situation analysis the coordination level selected for consultation for dialogue with provincial chiefs, as well as the privileged level to share information differed: inter-regionally for the DGI, regionally for the DGCP.

The different was also due to the fact that the consultation method was based on the DGI on the role of the representative of the General Director fulfilled by the delegate, while in the DGCP the regional TPG progressively performed a collegiate coordination role, in a process controlled by the central administration.

"The principles of the new plan applied at the dgfp capitalize on the expertise"

3. PRINCIPLES AND CRITERIA ESTABLISHED DURING REFLECTION WORKS

Three principles were validated:

- The mission of steering, coordination and management control must be clearly defined centrally at the core of the future General Bureau;
- The operational level was provincial, given that it benefits from a real decentralization;
- Works allowed defining the distinction between the operational (provincially as well as regionally) and the functional (steering, coordination and management control). The functional independence of management control is a clear principle.

TOPIC 3.1 (France)

To further analyze this issue, the Workshops compared different foreign tax administrations. International experience allowed highlighting some ideas for reflection:

- the appropriate geographic level for management control tends to, internationally to reduce the number of structures. In most of the administrations studied, this network is located between 4 and 17 entities;
- the management control plan includes the cost approach, which allows better control of public expenditure, respond to the objectives of LOLF and unify management control associated with the consultation of the results and the resources ;
- the constant search for simplicity and the clarity of the procedures to determine national objectives through contracts or regional and local plans;
- the interest of making management control procedures lighter, further focusing on the priorities defined and clearly established at each level.

Based on these principles and suggestions, the proposals made by the workshops were prepared considering three criteria:

- the need for the merged General Bureau to have a clear and reactive steering line vis-à-vis operational levels;
- the need to have external management control for operational positions, in order to clearly comply with their "under pressure" ;
- the need to add the expertise gathered from the current systems to define an efficient functional plan.

4. THE PLAN DEFINED IN 2008

Based on these principles that the Minister announced in the DGFIP a functional management control plan based on the General Director's delegates.

At the end of the reflection carried out in the new central administration, the General Director of public finances defined the role of the General Director's delegates.

The main axes are:

- Delegates representing the General Director before the local DGFIP chiefs, and their main role is to guarantee downwards and upwards strategic information, and to this effect, steering committees participate, and they provide information on the inter-regional situation and, at least every two months, the collegiate body of territorial chiefs meets; they play a role to share the information and best practices through work groups. They

specially oversee the preparation and enforcement of the inter-regional fiscal control plan by the DIRCOFI;

- Following the advance of the strategic reforms of the merger;
- Delegates acting on the definition and follow-up of the performance of the services, all scopes of activities are included. This covers the assignment of employment and resources in the framework defined by the central administration with an inter-regional reserve of credits and auxiliary personnel.
- Unified and bilateral follow-up of information management for the year 2009, bureau by bureau, of the activity and the objectives defined in 2008 pursuant to the procedures of each former bureau:
- Delegates participate in the evaluation of executives and contribute to reflection the central administration as a correspondent of a determinate field of activity of the DGFIP.

Globally, the plan selected capitalizes in the expertise of the two merged Bureau and specifically, in what clearly explains the distinction between functional intermediary and operational person in charge. It is important, in the framework of the merger to oversee the functional dimension of the delegates. At this level it is important to appreciate the separation, in the organization of the DGFIP, of on the one hand risk control audit and performance on the other.

On this clear basis the convergence of the practice of the information management and coordination methods of the services networks is at play for 2009 - 2011. The evolution of the team of delegates towards a more balanced composition between those which origin is of fiscal origin and those which origin is public management, it will be essential that on road towards this direction.

ANNEXE

Indicator Definition		2006		2007		2008				% of attaining the goal at December 31		Objective Achieved 31/12/2007	Objective Achieved 31/12/2008
		Objective	Result at December	Objective	Result at December	Objective	Result at June	Result at September	Result at December	2007	2008		
GREATER SERVICE QUALITY FOR THE GENERAL PUBLIC													
FACILITATE TAX PAYMENT													
1	Level of effective compliance with the commitments of the “facilitating tax payment” program (former DGCP network)	87.50%	81.9%	90.00%	90.9%	90.00%	88,97% (accumulated at 30/06)	89,79% (accumulated at 30/09)	90.45%	101.00%	100.50%	🟢	🟢
1 bis	Level of effective compliance with the commitments of the “facilitating tax payment” program (former DGI network)	87.50%	90.64%	90.00%	92.32%	90.00%	90,65% (accumulated at 30/06)	90,39% (accumulated at 30/09)	90.59%	102.58%	100.66%	🟢	🟢
1 ter	Level of effective compliance with the commitments of the “facilitating tax payment” program in the DGFIP (common to both networks)	87.50%	87.1%	90.00%	92.08%	90.00%	90,41% (accumulated at 30/06)	90,51% (accumulated at 30/09)	90.93%	102.31%	101.03%	🟢	🟢
2	Number of individuals filing through the Internet Tele-IT (income tax individuals)	5,500,000	5,161,559	8,500,000	6,696,772	10,000,000	6,762,778	6,762,778	6,762,778	78.79%	67.63%	🟡	🟡
3	Part of VAT revenue, Corporate Taxes and Taxes paid over salaries by professional users which are subscribed to an Internet payment procedure	63%	62.28%	67.00%	68.16%	70.00%	68.57%	69.59%	69.82%	101.73%	99.74%	🟢	🟡
4	Individuals paying their taxes electronically (Income Tax and Local Taxes)	45.00%	45.20%	47.00%	47.51%	49.00%	47.05%	47.98%	50.15%	101.1%	102.35%	🟢	🟢
5	Secure taxpayer identification, income taxes and local housing taxes, individuals	92.50%	93.50%	92.60%	93.68%	92.70%	94,85% (annual measurement)	94,85% (annual measurement)	94.85%	101.17%	102.32%	🟢	🟢
6	Secure taxpayer identification, professionals	> ou = 98%	98.33%	> ou = 98%	98.47%	> ou = 98%	98,4% (annual measurement)	98,4% (annual measurement)	98.40%	100.48%	100.41%	🟢	🟢
ALLOW USERS TO QUICKLY BENEFIT FROM THEIR RIGHTS													
7	VAT credit refund requests for corporations, with favorable response or partially favorable managed in a term lesser than or equal to 30 days	80.00%	89.48%	80.00%	90.66%	80.00%	90.52%	89.69%	89.52%	113.33%	111.90%	🟢	🟢
8	Administrative complaints, regarding the income tax and local housing taxes, individuals, transacted during the month	93.30%	95.75%	93.70%	95.75%	94.10%	92.47%	94.88%	96.16%	102.19%	102.19%	🟢	🟢
9	Parties' written statements produced within a six month term before the courts in response to taxpayers' requests	65%	73.62%	70.00%	77.00%	75.00%	55.45%	66.15%	78.72%	110.00%	104.96%	🟢	🟢
INCREASE TRANSPARENCY AND SPEED TO PROVIDE BENEFITS RELATING TO REAL ESTATE PROPERTY													
10	Delivery of information requested on real estate within the 10 day term *	100.00%	99.89%	100.00%	99.89%	100.00%	99.97%	99.98%	99.98%	99.89%	99.98%	🟢	🟢

Indicator Definition		2006		2007		2008				% of attaining the goal at December 31		Objective Achieved 31/12/2007	Objective Achieved 31/12/2008
		Objective	Result at December	Objective	Result at December	Objective	Result at June	Result at September	Result at December	2007	2008		
TAX FAIRNESS FOR ALL CITIZENS AND IMPROVEMENT OF TAXPAYERS' RELATIONS													
FAVOR VOLUNTARY COMPLIANCE WITH TAX OBLIGATIONS													
11	Filing returns on the companies' annual results outside the term	<1%	0.65%	<1%	0.50%	<1%	10.41%	3.95%	0.39%	150.0%	161.00%		
12	Respect for legal terms by companies regarding VAT declaration obligations	88.50%	89.19%	89.50%	90.69%	90.50%	90.28%	90.88%	91.38%	101.33%	100.97%		
13	Respect of the obligations by individuals regarding income tax obligations	97.80%	98.10%	97.90%	98.13%	98.00%		98.61%	98.20%	100.23%	100.20%		
14	Gross collection percentage of taxes issued with "rôle" (individuals income taxes and local taxes) at 31/12/N+1	97.85%	98.15%	97.87%	98.35%	97.90%	96.76%	97.83%	98.52%	100.5%	100.63%		
15	Taxes paid spontaneously in the group of the DGFIP collection network	98% à 98,5%	97.93%	98% à 98,5%	98.03%	98% à 98,5%	97.72%	97.86%	97.92%	100.03%	99.92%		
16	Net collection type by enforced collection	55%	61.04%	55.25%	60.09%	55.50%	49.86%	59.58%	66.09%	108.76%	119.08%		
17	Administrative collection of fines and monetary fines	38.00%	33.13%	40.00%	35.25%	42.00%	32.41%	35.61%	37.90%	88.1%	90.24%		
FIGHT AGAINST TAX FRAUD AND COLLECT TAXES THAT WERE CRIMINALLY AVOIDED													
18	Percentage of controls preventing more serious frauds	15.00%	16.44%	15.00%	17.78%	15.00%	18.08%	17.76%	18.12%	118.53%	120.80%		
19	Percentage of controls, with a research process prior to examination, which prevent the most serious frauds	28.50%	31.79%	29.00%	34.41%	29.50%	35.92%	35.77%	36.55%	118.66%	123.90%		
20	Control correlated to income and assets, in files with a strong financial incidence	33%	NC	66.67%	67.04%	100.00%	85.91%	93.89%	103.03%	100.56%	103.03%		
21	Collection percentage in the DGFIP of debts and fines, coming from a closed examination process during FY N-2	42%	40.32%	42.50%	44.52%	43.00%	37.38%	37.64%	37.87%	104.75%	88.07%		
22	Percentage of controls which on site duration was equal to or lesser than 9 months GE = Large Businesses AE = Other Businesses **	90% GE 100% AE	92,05% GE 98,85% AE	90% GE 100% AE	93,56% GE 99,00% AE	90% GE 100% AE	93,65% GE 99,12% AE	93,80% GE 99,17% AE	93,39% (GE) 99,01% (AE)	103,96% GE 100% AE	103,77% GE 100,01% AE		
MEANS ADAPTED TO OBJECTIVES													
SUPPORT THE ACTION OF OPERATIONAL SERVICES													
23	Non-availability of the main IT management applications (ILIAD, MEDOC, BDRP, the FIYIS, MAJIC2, Téléactes, Management AGORA)	5% annual decline	-33,79%	5% annual decline	-28%	5% annual decline	657 757 hpp = -27,35%	790 595 hpp soit -42,46%	1 023 649 hpp = -35,62%	560.00%	712.40%		

Indicators that generate benefits in the FY 2008

Indicators that are common to the former DGI and the former DGCP

Indicators of the Former DGI

Indicators of the Former DGCP

* The Objective is deemed achieved as from 99,75%

** The Objective is deemed achieved as from 99%

*** Measure regarding the former perimeter of IT applications (ILIAD, MEDOC, BDRP, the FIYIS)

Objective achieved



Objective not attained but in process in regards to N-1 comparable result



Objective not achieved and result under the N-1 comparable level



Result not significant for this term



GLOSSARIES:

DIRCOFI:	Fiscal Control Bureau
BOP:	Program Operational Budget
RAP:	Annual Performance Report
DPA:	Diagnostic - Action Plan
CPP:	Multi-year performance Contract
CDP:	Performance Direction Contract
RIF:	Ile-de-France Region

The year 2008 results of the fiscal indicators are in the attached document.

Case study

Topic 3.1

MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

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*SUMMARY: 1. Approach.- II. The situation in Spain.- 2.1 Backgrounds.-
2.2 Tax fraud prevention plan.- 2.3 Results.- 2.4 The revision of the
fraud prevention plan in Spain.- III. Critical analysis and current
initiatives.- IV. Conclusions*

I. APPROACH

By strategic planning is understood as the activity whereby a public or private organization defines its mission, its vision, the core values guiding its activities and its middle and long-term objectives, along with the strategies to pursue in order to achieve them. This activity also implies an analysis of its own situation and the environment in which the organization operates, so that the objectives and strategies adjust to the specific reality at a certain time in a certain country.

Strategic planning is not an alien concept to public bodies. The evaluation of the Public Administration's actions has been a constant concern of society since the first half of the twentieth century. While the concept of strategic planning, objective-based management and management control achieved great development in the business world, in the field of Public Administrations these ideas were introduced though with some reservations.

It should be pointed out that in the case of public administrations the definition of the public body's mission is largely found in the law or in a rule laid down by the nation's government, with the field of strategic planning focused on the compliance with the mission imposed by the juridical system.

This is the case of the tax administration, whose mission to apply the tax system, with greater or less powers varying by country, is set by juridical rules. Therefore, the question remains of what space is left for strategic planning in a tax administration, which we will discuss here from the experience of the Spanish Tax Agency.

II. THE SITUATION IN SPAIN

Under its Charter, the State Tax Administration Agency (hereafter, Tax Agency) was created as a public entity having a legal system that confers upon it certain self-governance in organizational, budgetary and staff management matters, with respect to the State General Administration.

The Law assigns the Tax Agency the mission of applying effectively the state and customs tax systems, and such other resources of other Administrations and national Public Bodies or European Union bodies whose management is entrusted through a Law or Pact.

Like many other Public Administrations, for the performance of its mission the Agency has fixed as its core strategic objective the increase in the levels of citizens' voluntary fulfillment. To this aim, it has defined two fundamental lines of action. The first one intends to facilitate citizens' voluntary compliance with their tax obligations, by offering information and assistance services. The second one is targeted at detecting and regularizing tax non-performance by way of control actions that guarantee the generality and equity in the contribution of public charges.

To put into practice these core strategic lines of action, the Tax Agency has implemented an objective-based planning system that addresses two aspects of planning: strategic planning and operating planning.

The strategic planning outlines the major lines of action the organization must follow in the middle and long term, whereas the operating planning translates pluriannual strategies into actions and annual goals, which are incorporated into an annual objective plan and tax control plan.

The aim of this paper is to show the experience of the Spanish Tax Agency in utilizing planning to implement a change in the strategic line of action. To this end we will discuss the effects of this strategic renewal in the Tax Agency's orientation of activities and the results obtained during the period 2005-2007.

2.1 Backgrounds

Since its creation in 1992, the Tax Agency has used diverse planning instruments with a larger scope than the annual objective plan. The planning is in line with the new organizational model of the Tax Agency that confers autonomy but demands a strict control from the Government and the Parliament.

During the first two years of its existence, the Tax Agency resorted only to annual plans as instruments for planning its activity. However, since 1995 it has been incorporating strategic planning tools with diverse scopes. We say this because some plans had a general scope whereas others made reference only to the fight against fraud. Some of the latter ones, as we will see, have even had a general strategic orientation.

- In 1995 the Fight Against Fraud Plan was approved. No specific effective term was contemplated. This plan not only made reference to the tax fraud but also comprised social security and other public service fraud. The diagnosis of the Plan was very comprehensive, although it fell short of operating measures.
- Later, the Biannual Plan for tax fulfillment enhancement and the fight against tax and customs fraud was approved, inspired largely by 1995's Plan.
- In 1998 the Modernization Plan of the State Tax Administration Agency was approved, which provided no specific effective term. Along the different paragraphs, it puts together, on the one hand, the measures to facilitate voluntary fulfillment and, on the other hand, the tax fulfillment control model.

Nevertheless, given its influence on the Tax Agency's current activity, we would like to underline the recent experience with the Tax Fraud Prevention Plan (approved in February 2005), used by the Tax Agency to implement a shift of direction which has ultimately had a great repercussion in the results of its activity. This is what this paper intends to discuss, for it implies analyzing through the real experience of a tax administration the ability to achieve tangible results from the strategic planning of its activities.

The situation exhibited a great development of one of the above cited strategic lines, that is, taxpayer information and assistance, whereas tax control had been relegated to a secondary role. The instructions received from the Government through the Presidency of the Tax Agency concerned the redefinition of priorities placing the fight against fraud as a top priority, without neglecting citizen assistance.

2.2 Tax Fraud Prevention Plan

The Tax Fraud Prevention Plan could be defined as a special plan for the prevention and fight against tax fraud, which distinguishes it from other general scope strategic plans entrusted to the Tax Agency.

Even so, since its approval in 2005, it has become the strategic document of reference in the Tax Agency's activity. The Tax Fraud Prevention Plan has defined a general strategy for the Tax Agency consisting in the promotion of voluntary fulfillment through two lines of action that can be summarized as providing facilities to taxpayers in compliance, on the one hand, and fighting against fraud on the other hand. Hence, the Plan has contemplated the two facets of the Tax Agency's activity: taxpayer information and assistance, and tax control.

The main characteristics of the Plan are:

It is an integral plan, because it comprises everything from tax education to tax whitewash or the persecution of tax crimes, that is, from taxpayer information and assistance, in the broadest sense of the term, to criminal penalization of the most serious fraudulent behaviors.

It is operative, because a great part of the proposed measures have immediate application, which have thus been translated into annual objective plans. However, the Plan has also been completed with formative reforms that have been incorporated into the Act of Tax Fraud Prevention No. 36/2006 of November 29, and its service charter, approved by the Executive Order 1804/2008 of November 3, and some organizational adjustments, specifically the creation of the Central Office of Large Taxpayers.

It is flexible, since it adapts to new forms of fraud or new social requirements.

Besides, it should be considered that the Tax Fraud Prevention Plan of 2005 is for internal execution within the Spanish Tax Agency and does not provide a limited term of execution.

The methodology employed in the Tax Fraud Prevention Plan deserves special attention. The Plan is the result of a large process of internal reflection taken place in the Tax Agency, which has also been put to the consideration of the whole society, so the process of its preparation can be said to be largely participative.

1. Initial Phase

This consisted in the identification of weaknesses and strategic, organizational or coordination issues apt for improvement in the control model. To cite an example, the following weaknesses were detected:

- Problems related to the obtention and systematization of the information available to the Tax Agency, which hinder the selection of taxpayers and control actions.
- Lack of an external communication policy apt to leverage the effects of control actions and allow gaining allies among citizens, companies and entities affected by fraud.
- The Tax Agency's organizational model and external alliances have not experienced any substantial changes from its creation, reducing its ability to respond to such phenomena as the misplacement of taxable persons or operations with tax havens.
- Lack of a clear and integrating strategy to fight fraud during the collection phase of control actions, which consists in the equity stripping of defrauding entities during the period of control actions.
- Limitations to the planning instruments of actions targeted, until this Plan, at proving a minimum number of taxpayers and discovering a certain amount of debt, with the resulting discouragement of more complex investigative tasks.

2. Experts' Analysis

From this diagnosis, over sixty measures or areas requiring improvement were identified. The Tax Agency's Permanent Managing Committee appointed experts who submitted a report for each of the measures.

These reports, more than 60 in total, were subjected to the consideration of the Agency's Departments and Services, and once ratified by the Permanent Managing Committee became the basis for the preparation of the Fraud Prevention Plan.

3. Draft Plan Preparation

The experts' reports led to execution of coordination tasks. The set of over 60 reports was depurated and systematized into eleven action blocks or areas based on the fraud modality, the type of affected taxpayer or the type of proposed measure.

4. Public Information

The preparation of the Plan followed a methodology that incorporated elements of social participation inexistent in previous plans.

The draft Plan underwent a diligence of public information for two months that included its publication on the Agency's webpage for information of the citizens, resulting in over 500 suggestions from individuals and 22 reports from professional associations and unions. All of them were subject to a careful analysis by the Tax Agency with a view to enriching the Plan's content and adapting it to the demands of the society regarding tax fraud prevention. Some modifications were introduced in the draft as a consequence of such contributions.

5. Presentation of the Plan

Upon completion of the public information diligence, the final version of the Tax Fraud Prevention Plan was presented within the frame of the meeting of the Council of Ministers held on February 4 of 2005. It consists of a document divided into four chapters.

- The first chapter is devoted to presenting the Plan.
- The second chapter includes the main lines of action.
- The third chapter is composed of eleven areas of actions.
- The fourth chapter, relative to regularizing measures, presents in systematized fashion the regularizing proposals whose study derives from the aspects developed by the Plan.

6. Permanent Suggestion Box

The disclosure of the Plan to the society, which, as it has been said before, constitutes the most innovative aspect of the methodology employed, has been completed with a permanent suggestion box posted on the Agency's website www.agenciatributaria.es. In this box citizens can formulate proposals and observations that are subject to the Tax Agency's continuing study.

The Tax Fraud Prevention Plan defines new strategies that entail a shift in management and will inform the organization's activities in the following exercises:

- In-depth investigation and creation of specialized investigative units of the most sophisticated fraud modalities, and field presence. The great volume of information stored in tax databases is recognized as being a major asset. However, with time it may pose a risk because the control model may only consider what is inside the information system. An

adequate tax control requires investigating in addition to proving what is known, and incorporating risk analysis techniques.

- Approximation of control to the execution of the taxable event. Greater effectiveness of action is sought by way of greater proximity between the control of the taxable event and the time the taxable event is executed, especially in the case of indirect taxes.
- Performance of more preventive actions, because correcting is more difficult and costly than preventing. To this aim actions have been reinforced, such as the forwarding of fiscal data and individuals' income tax drafts.
- Reinforcement of internal coordination and integration. The Plan reinforces the mechanisms of integration and coordination between the different functional areas.
- Prioritized attention to liquidated debts. The collection of debts arising from investigative and verification processes is articulated as a priority for the Tax Agency's actions. What is being avoided is the displacement of fraud towards the collection phase, thus eluding the tasks of control bodies.

The structure of the Tax Fraud Prevention Plan comprises the following sections:

- Preventive actions and institutional alliances
- Areas of specific attention:
 - Organized fraud schemes
 - Real estate sector
 - Foreign trade
 - Small and medium-sized companies
- Fraud during collection phase
- Organizational and coordination measures
- Regularizing measures

Each of such sections contains action principles and concrete measures that have been incorporated into successive annual objective plans of the Tax Agency during the period 2005-2008.

In addition to setting the general guidelines of the fight against fraud actions, the Plan also called for a modification of the annual objective plan's structure that would reflect the proposals, in terms of actions. This implied abandoning liquidated debt as the main measure of control effectiveness, and adopting standards that opened the door to investigative actions that had never been sufficiently promoted and valued when they were carried out in terms of liquidated debt.

We will now focus briefly on the Tax Agency's annual planning tools in order to show how the tax fraud prevention plan is reflected in their structure and content.

These are the Annual Objective Plan, the General Tax Control Plan and the Central Services' Commitments.

THE TAX AGENCY'S OBJECTIVE PLAN

The Tax Agency's annual objective plan is the summarized, joint and systematic expression of the results that are expected to be accomplished with each of the objectives outlined in the plan itself.

The Tax Prevention Plan has implied a revision of the planning principles, which can be summarized in the following aspects:

1. Alignment of the objectives with the strategy (to favor voluntary fulfillment)
2. In 2005, liquidated debt ceases to be the target of control actions. Until then, the target of control actions was measured mainly in terms of liquidated debt; thereafter, the objectives are fixed in terms of numbers of actions homogenized and weighed by diverse factors, among them, liquidated debt.
3. Reinforcement of coordination through the establishment of indicators common to different areas (Customs, Management, Inspection and Collection) and quality through diverse weighing factors that consider the different quality of actions.
4. Planning becomes more participative upon including territorial services in the process of preparation of the Annual Objective Plan.
5. The Objective Plan is approached from an internal double perspective to point out the organization's annual goals; and externally, for the purposes of accountability before the General Courts. A basic principle of the current planning system is the external control exercised by the Government and the General Courts. This control is particularly exercised by presenting the annual Objective Plan and two biannual reports on results to the Courts, through the Government. In addition, the Tax Agency's Director reports to the Parliament to expose the achieved results.
6. A notable simplification is made in the definition of the diverse indicators in the Objective Plan with the preparation of an integral chart of indicators containing 13 first-level metrics.

Since 2005, the Agency's Objective Plan presents two clearly differentiated parts:

The first one refers to the results in terms of gross revenue collection, liquid collection and the effects in terms of collection of the Agency's managerial actions.

The second one refers to the actions performed by the Tax Agency, whether taxpayer assistance, control or collection management. All control actions, whether extensive or intensive, are measured in terms of the number of actions.

The objective plan in its first part measures the collecting function of the tax public resources entrusted to the Agency. In the second part, the taxpayer assistance, tax control and collection actions to be performed are quantified with a view to fulfilling within the year all actions due by the different management units and thus allow a proper managerial control.

Below is the first-level objectives chart.

I. RESULTADOS.
1.- Recaudación bruta.
2.- Recaudación líquida.
3.- Efecto recaudatorio directo:
3.1.- Ingresos derivados de las actuaciones de control de la Agencia
3.2.- Minoración de devoluciones.
II. ACTUACIONES.
II.1.- ASISTENCIA AL CONTRIBUYENTE.
4.1.- Tiempo medio de tramitación de recursos y reclamaciones.
4.2.- Presentación de declaraciones por vía electrónica, informática y telemática.
II.2.- ACTUACIONES DE LUCHA CONTRA EL FRAUDE.
ACTUACIONES DE CONTROL SELECTIVO E INVESTIGACIÓN.
5.- Actuaciones inspectoras sobre tributos internos.
6.- Actuaciones de Inspección sobre tributos de Comercio Exterior e I.I.EE.
7.- Actuaciones inspectoras sobre el sector inmobiliario.
8.- Actuaciones sobre tramas de fraude.
9.- Actuaciones del Area Operativa de Aduanas e I.I.EE..
ACTUACIONES DE CONTROL EXTENSIVO.
10.- Actuaciones de control extensivo de tributos internos y módulos.
11.- Actuaciones de control extensivo sobre grandes empresas.
12.- Actuaciones de control de gestión aduanera y de gestión e intervención de Impuestos Especiales.
ACTUACIONES DE GESTIÓN RECAUDATORIA.
13.- Gestión recaudatoria de deuda.

I. COLLECTION RESULTS

Objectives 1 and 2 reflect the voluntary tax collection resulting from taxpayers' self-liquidations.

The direct collection effect in objective 3 reflects, on the one hand, the tax collection generated from the Tax Agency's liquidation actions, and on the other hand, relief of tax refunds made by the Tax Agency as a consequence of a control action.

The indicator 3.1 is a transversal objective that measures, with a cash criterion, the revenues obtained during the term of the Annual Objective Plan.

The tax refund relief indicator, 3.2, is intended to complete the tax collection effect deriving from control actions, and it is justified because it has prevented an undue amount from coming out of the Public Treasury thanks to the success of control actions.

The measurement of the direct collection effect is supplemented by the measurement, though not with the category of objective, of untimely tax returns submitted by taxpayers, which measure the immediate induced effect deriving from the Tax Agency's control actions. Not all control actions conducted by the Tax Agency can be measured by the actual collection, for many times these cause voluntary regularizations in the environment of the taxable person that is being subject to control.

II. ACTIONS

II.1 Taxpayer Assistance

- 4.1. Average time for the diligences of remedies and claims. This indicator fixes a maximum term for the diligence of procedures of remedies or claims filed by taxable persons.
- 4.2. Electronic, computer and telematic lodgment of tax returns. This indicator measures the percentage of taxpayers' returns lodged through non-presence means, making a differentiation between mandatory lodgment tax models, which measure only the number of submitted records to show the volume of information entered through this means, and non-mandatory models, in which a minimum achievable percent objective is established.

The above cited objectives include other types of measurements that supplement an overview of taxpayer assistance activities.

As a result of the updated Fraud Prevention Plan, a modification was introduced in this point to reinforce the measurements of voluntary fulfillment promotion by way of a reduction in the administrative charges tied to voluntary fulfillment.

II.2 Actions to Fight Fraud

Among the actions to fight fraud we can distinguish selective control and investigative actions, extensive control actions and tax collection management actions.

Selective control and investigative actions pertain to the application of the inspection proceeding that confers wider powers for investigation and control. They are carried out by the departments of Financial and Tax Inspection and Customs and Special Taxes. They are a faithful reflection of the action lines established in the Fraud Prevention Plan for certain control aspects such as the inspection actions in the real estate sector or fraud schemes.

The indicators 5, 7 and 8 refer to control actions for internal taxes, while the indicators 6 and 9 are actions carried out by Customs Inspection and Customs Surveillance, relative to foreign trade taxes.

The extensive control actions reflect mass actions based on computer filters and mass cross-check information using restricted verification or check procedures in which the Tax Administration's investigative powers are limited.

Tax collection management actions distinguish between those leading to revenues generated from voluntary fulfillment or summary proceedings and those not leading to immediate revenues, either because of the adoption of precautionary measures or the de-registration of accounts due to the taxable person's insolvency.

GENERAL TAX CONTROL PLAN

The General Tax Control Plan is the Tax Agency's planning tool for establishing quantitatively and qualitatively the actions to be performed in tax and customs control during the year.

The General Tax Control Plan outlines and describes the actions contemplated in the Objective Plan, values them and sets forth the maximum and minimum limits of actions. In other words, it translates the actions contemplated in the Objective Plan into operating terms.

It is structured as follows:

- General Guidelines
- Tax Control Partial Plans
 - o Partial Plan for Control of Financial and Tax Inspection
 - o Partial Plan for Control of Customs and Special Taxes
 - o Partial Plan for Control of Tax Management
 - o Partial Plan for Tax Collection Control
- Partial Plan Integration Rules
- Coordinated planning of assigned taxes

Whereas the Objective Plan refers to the number of actions we intend to perform during the year, the General Tax Control Plan specifies the number of actions for each program, its future valuation and limits, including penalties for excess non-performance in any of its sub-indicators.

The general action lines in the General Tax Control Plan are approved by resolution of the Tax Agency's Managing Director published in the State's Official Bulletin. The Partial Plans and their Integration Rules are reserved and not disclosed publicly.

Overall, the Partial Plans follow the same structure:

1. Description of prioritized sectors of actions and fraud operation.
2. Scheduled actions:
 - a. Broken down by program
 - b. Broken down by territorial unit
3. Homogenization coefficients
4. Weighing criteria

The Partial Plan integration rules develop a fundamental strategic guideline that gains relevance in the Objective Plan. It consists of the coordination between areas and between collaboration and coordination actions. Among them stand out the collaboration actions between liquidation areas and collection areas, with the immediate purpose of assuring debt collection from the time the control action is started. This kind of actions has great importance in Administrations having a functional organizational base, as is the case of the Agency.

CENTRAL SERVICES' COMMITMENTS

The fraud prevention plan reports another annual planning tool, the Central Services' Commitments, which sets the managerial objectives of Tax Agency Departments and Services that are not attributable or imputable to the managerial offices. Since 2005, these commitments have given a relevant role to this type of objectives that derive directly from the Plan.

The Central Services' Commitments are a basic tool within the planning of the annual activities of Tax Agency Departments. Therefore, they constitute the necessary supplement of the Objective Plan and the General Tax Control Plan in that they extend planning of actions to those performed by the Central Services of the Tax Agency's Departments.

The commitment document compiles the most relevant projects, in terms of strategy and annual execution, of all Tax Agency Departments. It includes relevant projects, news and measures that allow the operating units to accomplish the organization's objectives.

In addition to its content, each commitment indicates its term of execution and, where possible, the diverse actions to be performed and the term considered for their performance. Also, the commitment document indicates the departments or collaborators responsible for each project.

Unlike the Objective Plan, the degree of fulfillment of commitments cannot be shown in terms of tax collection results or the number of actions. As a consequence, a quarterly assessment is required of the degree of progress of projects in consultation with the departments in charge, which issue a reasoned report on the status of each commitment affecting their Department or Service.

Given the nature of commitments, in some cases their fulfillment may be contingent upon the approval of certain rules or the agreement with other public bodies.

As an example, we offer below the structure of the commitment document of Central Services for 2008:

- I. Originating in the execution of the Fraud Prevention Plan:
 - Of operating and regularizing character
 - Of organizational character
- II. Relating to taxpayer information and assistance:
 - Improvement of information and assistance services
 - Actions deriving from regularizing modifications
- III. Other commitments related to tax control:
 - Improvement of computer tools for control purposes
 - Manuals and knowledge management
 - Improvement of control in specific areas
 - Control actions deriving from regularizing modifications

IV. Various commitments:

- Relationship with other public administrations, national and international
- Human resource management
- Material resource management
- Other commitments

2.3 Results

During the first years of implementation of the Tax Fraud Prevention Plan (2005-2008) some aspects have been reflected in the annual results and the aggregated data resulting therefrom, which are directly tied to the Plan's strategic proposals.

Below are some relevant data showing the impact on results.

In effect, during the years of application of the Plan there has been a considerable increase in the accumulated direct collection effect of control actions, on a correlative basis. This went up to 22,394 million Euros. The evolution from 2004 to 2008 entails a 60, 49% increase in revenues from direct collection.

The following chart shows the evolution in millions of Euros:

YEAR	REVENUES	REDUCTIONS	UNTIMELY REVENUES	TOTAL
2005	3,640.483	972,482	913,433	5,526.398
2006	4,182.645	1,126.989	1,096.572	6,406.206
2007	4,714.530	1,239.368	1,479.882	7,433.780
2008	4,825.134	1,692.812	1,536.172	8,054.118
TOTAL	17,362.792	5,031.651	5,026.059	27,420.502

On the other hand, the Plan allowed the optimization of control actions intended not only to obtain a direct collection effect through the regularization of non-performances, but also to generate an induced effect. In this sense, on confirming that certain verification and investigative actions are in place, taxpayers are encouraged to regularize their tax situation through the lodgment of untimely self-liquidations (outside the statutory term).

If we consider both the direct collection effect and the induced effect deriving from the voluntary regularizations carried out by taxpayers, the result accumulated during the years 2005 to 2008 amounts to 27,421 million euros.

On the other hand, as a consequence of the provisions made in the Tax Fraud Prevention Plan, there has been an increase in control over such sectors as real estate, as shown in the 227% rise in the debt liquidated by the Inspection services in 2007 (latest data available as of the date of this paper) with respect to 2004, in this sector. This increase in control has also led to improved voluntary fulfillment, reflected in the •3,113m increase in real estate capital yields voluntarily declared in 2007, compared to 2004.

The compliance with the Plan has demanded firm action on sophisticated and socially disapproved fraud modalities (schemes, tax whitewash, forgery, etc.).

Schemes constitute a type of fraud that is extraordinary complex. The detection of fraud schemes involves several functional areas of the Tax Agency and, in cases where criminal signs are identified, the Attorney General's Office and the judges and courts also intervene. Besides, schemes extend throughout the national territory, requiring adequate inter-territorial coordination and affect not only the Spanish Administration but also the rest of the Member States of the European Union.

The Prevention Plan contains a series of measures intended to avoid, through preventive measures, the appearance of fraud, and explain how to detect schemes as soon as possible to fight them effectively. Among these measures are:

- The creation of specialized units devoted to investigating and dismantling fraud schemes. They have been constituted in all the Special Delegations, totaling 41 units.
- The signature of understanding agreements with associations representing economic sectors, intended to detect and curb defrauding behavior affecting economic competition, and to allow the fight against unfair competition in certain sectors of the Spanish economy. The execution of this measure has led to the signature of Understanding Agreements with the following sectors:
 - o Computer software
 - o Mobile telephony
 - o Automobiles (concessionaires, manufacturers, importers, etc.)
 - o Brand advocacy
 - o Business Centers
 - o Nautical rental
 - o Consumers' and Users' Organization
 - o Spirits

TOPIC 3.1 (Spain)

- The signature of agreements to fight tax whitewash and tax fraud, through the exchange of information with other bodies:
 - o Collaboration Agreement for the exchange of information between the Tax Agency and SEPBLAC, July 5 of 2006.
 - o Agreement with Consejo General del Notariado (General Council of Notary Publics), of June 19 of 2007, for the provision of information contained in the Single Computerized Index, direct access to it and the fulfillment of other information-related legal obligations.

- Collaboration with the General Office of Traffic of the Ministry of the Interior for the eradication of fraud schemes in the Special Tax over certain Means of Transport. This measure was intended to eliminate fraud committed with relation to the registration of high-end vehicles coming from other States of the European Union, which pay taxable bases that are very low with respect to the vehicle's real price. This fraud was committed mainly through limited liability companies within the frame of organized schemes.

The effectiveness of these measures can be checked through the following data. The number of tax returns-liquidations submitted for this type of corporations, with taxable bases declared for a value less than •2,500 (large-cylinder and luxury vehicles) went down from 41,299 in 2004, to 10,321 in 2007, accounting for a 75% decrease in this type of self-liquidations.

Additionally, the Prevention Plan is aimed at completing the fraud prevention process initiated by the liquidation areas with a proper collection management of liquidated debts, adopting fraud prevention measures in this phase.

In particular, the precautionary measures and the subsidiary liability adopted helped increase actions from 649 in 2004 to 1,313 in 2007, duplicating the number of actions.

The Tax Fraud Prevention Plan required reinforcing institutional and social collaboration alliances by means of a policy of alliances with other bodies and institutions with a view to preventing fraud, obtaining relevant tax information, training the staff or normalizing management and control systems.

As a result of such measures there are diverse Agreements signed with Autonomous Communities, the Social Security Treasury, the General Office of the Merchant Marine, the General Office of Civil Aviation, Professionals' Associations, the Labor and Social Security Inspection Department, the National Institute of Social Security, etc.

As one of the Tax Agency's key lines of action, the Plan provides for taxpayer information and assistance to help them fulfill their tax obligations. This intends to minimize overheads associated with the performance of obligations and, in addition, to prevent defrauding behavior upon facilitating the fulfillment of tax obligations.

On this regard, the consolidation of the forwarding of tax drafts and data associated with the Income tax of Individuals stands out, which went from 7,370,575 tax drafts or data sent in 2004 up to 19,256,579 forwarded in 2008.

Other measures showing positive results in this sense are the reduction in the average term for refund of the income tax on individuals and the value-added tax, the increase in telematic certificates and the increase in telematic lodgment of tax returns (112% in comparison with 2004).

All this is added to the high appreciation of Tax Agency's services by the citizens, since 83.5% declares to be satisfied or very satisfied.

Not all plan proposals were directly reflected in the annual Objective Plan; however, they have impacted the Tax Agency's activity.

Hence, the Civic-Tax Education program, targeted mainly at contributing to the development of fiscal responsibility among citizens, has been the center of attention in the last years. Among the executed measures stands out the preparation in 2005 of a Civic-Tax Educational internet portal accessible from the Tax Agency's website and the websites of other public and private bodies.

In addition, between 2005 and 2007, a great number of actions were taken to disseminate the Tax Education Program, especially in the educational community, through letters to the centers' directors, the participation in wide coverage fairs and exhibitions, conferences, round tables, etc. During this period, 2,462 open seminars, 1,424 visits to centers have been carried out, with the participation of 199,009 students.

The Plan called for a greater transparency and social responsibility of the Tax Agency, and suggested organizing institutional communication programs that favor voluntary fulfillment and discourage defrauding behavior. So, the commitments assumed by the Tax Agency were reflected in the Agency's Service Charter and the website's statistical data on collection was improved. "The Tax Agency, a socially responsible organization" is one of the fundamentals that inspire the Agency's communication strategy.

The fight against drug trafficking, the ecological concerns - through the control of protected animal traffic -, its contribution to promoting lawful trade through merchandise control in customs, the sensitivity to disabled people, civic-tax

education, the promotion of gender equality, etc., are examples of this strategy that is aimed at a greater social responsibility.

Among the developed measures stand out:

- Disabled Person Assistance Annual Plan
- Large taxpayers survey
- Customs Security: With relation to brand protection, the verification of homologations and the detection of forbidden products, in 2007 55,124 documentary checks and 10,238 checks with physical recognition took place. Also, 198,662 import certificates have undergone documentary check and 2,424 physical checks of imported goods were conducted to guarantee the fulfillment of sanitation regulation.
- Control of Protected Species: In 2007, 904 living animals pertaining to protected species were checked, mainly reptiles and turtles. The total number of checked units, including protected species-derived products, was 21,829.

2.4 The Revision of The Fraud Prevention Plan in Spain

So far we have discussed the data. In 2008, during the fourth year of the Plan, the strategic Plan was revised. The substitution of the document was avoided because a new strategic plan would be difficult to formulate without repeating a great part of its wording. Besides, what is sought is the emphasis on the continuity of the strategy of fraud prevention and fight. For this reason, the document has been called Update of the Tax Fraud Prevention Plan.

Despite the satisfactory results achieved with the Tax Fraud Prevention Plan, it should not be forgotten that one of its essential characteristics is that the plan must be continually revised to adapt it to the reality and the new circumstances that may arise. The lapse of three years from the start of its application was considered an adequate time to revise it, analyze it critically and open it to the social debate and propose its update.

The Plan has allowed striking a balance between the Agency's two strategic lines of action, with the primary objective being the encouragement of citizens' voluntary fulfillment of tax obligations.

Now, well, it is also true that certain aspects of the economic and social scenario have experienced significant changes over the last years. The transcendence of the immigration phenomenon, the role of the real estate sector, the changes in the financial system or the new trends in the international scenario are all factors that cannot be ignored and which demand new answers or rethinking some solutions that were once adopted. It should be considered that the diverse ways of tax non-performance and fraud

accommodate rapidly to the economic and regulatory reality and the Agency's performance, taking advantage of an open and globalized economic scenario. On the other hand, the execution tasks of the Plan itself have disclosed new problems that want solution, and even the success of many of the Plan's measures has led to rethink new actions and objectives.

Accordingly, the situation of areas and action sectors have been reevaluated, which have already been approached previously under the Plan, in order to complete, improve or consolidate the measures and lines of action already initiated. New actions are undertaken and other areas are affected, such as, in particular, the sunken economy, understanding by it both the economic activity that remains fully hidden and other economic sectors hiding a substantial portion of their revenues, whether or not deriving from unlawful activities. Hence, specific measures are established intended to bring this situations to light and regularize them.

From the structure and content of the update of the Tax Fraud Prevention Plan stands out the continuity with 2005's Plan. Therefore, the basic strategic planning action lines are the improvement of voluntary fulfillment, the intensification of the persecution of the most complex fraud schemes and the strengthening of national and international collaboration. A series of strategic actions are thus proposed, structured around the following:

1. Promotion of voluntary fulfillment. From the previous experience, a new frame is proposed for the relationship with large companies and fiscal intermediaries. Taxpayer assistance is broadened, offered through tax data and the tax return draft system, proposing a rapid procedure for the solution of minor discrepancies in tax returns.
2. Control of risk areas. Great importance is given to the fight against the sunken economy. So, a series of measures are developed to detect the different manifestations of the hidden economy and to subject them fully to the application of the tax and customs system. The measures to fight fraud in the collection phase or in foreign trade control also stand out.

It should be underlined that 2009's Objective Plan, inspired by the update of the Fraud Prevention Plan, largely reinforces the area of tax collection though a summary proceeding in order to address the current economic crisis. To facilitate the continuity of the activities of viable companies, the objective is to grant extensions and fractioning of tax debts without unreasoned delay. At the same time, the measures pursue rapid and firm actions that may assure the collection of tax debts and public debts, thus preventing fraud maneuvers (nominee corporations, use of straw parties) and coordinating more with liquidation offices in order to detect risks and adopt precautionary measures, as per the case.

3. Supporting measures. A series of measures of a diverse nature that join the objective of supporting the execution of the provisions contained in the two preceding chapters. They consist in the completion of agreement and cooperation instruments with other entities to form institutional alliances for the application of new technologies to work methods, the adaptation of human and material means and other supplementary actions.

III. CRITICAL ANALYSIS AND CURRENT INITIATIVES

The medium and long-term strategic planning has been present in the Tax Agency virtually ever since its inception. However, it is the annual operating planning, through the annual Objective Plan and the Tax Control Plan, which has achieved a greater development.

The Tax Agency's management control has already been the topic of another paper entitled "Control as key management function in Tax Administration" presented at CIAT's technical conference held in Amsterdam in October 2004. There, the planning related to the Annual Objective Plan and the projected reform that has been presented here as a reality were developed more broadly. After some previous attempts, which have been discussed here under the title "backgrounds", the Tax Agency used an integral fraud prevention plan as the document that compiles its strategy for encouraging voluntary fulfillment. The Tax Fraud Prevention Plan of 2005 emphasized the promotion of voluntary fulfillment through two big strategic lines of action: taxpayer information and assistance, and tax control. Therefore, the integral approach of the fight against fraud, the idea of prevention along with control, allows the plan to include measures for taxpayer assistance enhancement and also other aspects such as the promotion of institutional alliances, which do not pertain strictly to tax control.

As a supplement to the existing planning tools, the Tax Agency is currently approaching several initiatives in the field of the organization's strategy. So, a Map of Risks has been prepared recently (approved in 2007) that defines 8 strategic risks, in addition to the operating risks identified in each area of action of the Agency.

In addition, since 2008 the Department of Organization, Planning and Institutional Affairs, together with the rest of the Tax Agency's Departments and Services, and the support of an external consulting firm, has been carrying out tasks to incorporate the methodology known as Balanced Scorecard into the Tax Agency's planning. In a first phase, this task has implied the definition of a Strategic Map by the Tax Agency's Managing Committee. Today, tasks continue in order to extend and adapt this methodology to the Tax Agency's planning system, integrating the diverse tools today in hands of the Agency.

IV. CONCLUSIONS

The first conclusion we can draw so far from this exposition is that the incorporation of the Tax Administration's strategic lines of action into documents that in turn provide information to the annual planning tools is an effective means to run the organization based on prioritized aspects.

Starting out from an advanced objective-based system, it should not be surprising that an instrument such as the Tax Fraud Prevention Plan should be so effective in causing a shift in the organization's strategy. From the above cited results, it can be concluded that the Tax Agency has been working differently and with other priorities since 2005 and that this has been reflected accordingly in the annual objectives.

It is not an obstacle for the strategic planning of a Tax Administration that its mission be determined by the legal regulation. Neither is the fact that the country's Government's instructions be precise as to the strategic lines of action for development.

In the case of 2005's Tax Fraud Prevention Plan it is the order to draft it itself (without reflecting it formally in the State's Official Bulletin) what triggers the strategic planning mechanisms to determine the big lines of action against fraud, both in terms of prevention and the fight against such behavior. The Plan was disclosed to the Council of Ministers on February 4 of 2005 before submitting it to the public opinion, with no objections made to it.

The same situation was put forward in the update of the Plan, which has implied, following the Government's initiative, a revision of the fundamental lines of action of tax fraud prevention in line with the current economic and social circumstances.

Therefore, it is concluded that the Tax Administration's mission should be expressed in terms of big strategic lines of action and translated into goals. It is also convenient that the adequate criteria should be fixed for objective setting, so that the results into which the organization's strategy is translated can be regularly measured.

Ultimately, strategic planning is a necessary activity for Tax Administrations that intend to fulfill the mission reserved to them by the juridical regulation.

Case study

Topic 3.1

MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

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SUMMARY: 1. General characteristics of the SAT'S management follow-up and performance evaluation system.- 1.1 Government model for planning, strategic management and continuous improvement.- 1.2 Strategic maps and management follow-up and performance evaluation system.- 1.3 Systems indicators.- 1.4 Implementation of management follow-up and performance evaluation system.- II. Results obtained as a result of the government model operation.- 2.1 General results.- 2.2 The general administrations participation.- 2.3 Results on the subject of focusing on the strategy.- III. Problems observed during implementation and operation.- IV. Strategies to address the problems observed.- 4.1 Strategies on the subject of regulation.- 4.2 Strategies on the subject of organization.- 4.3 Strategies on the issue of processes.- 4.4 Strategies on the issue of information.- 4.5 Strategies on the issue of technology.- V. Conclusions

SUMMARY

The purpose of this document is to present a synthesis of the practices and experiences in the Tax Administration Service (Servicio de Tax administration, SAT, in Spanish) of Mexico, regarding the implementation and operations of the management follow-up and performance evaluation system and the indicators to measure the institutional performance, which form part of the **SAT's Government Model for Planning, Strategic Management and Continuous Improvement**, and which implementation began in 2008.

The document is divided into five parts:

Part one describes the Government Model for Planning, Strategic Management and Continuous Improvement, which is the Institution's conceptual and functional framework of the Management follow-up and performance evaluation system.

Through this model the Strategic Management, **Tactical Management and Operational Management are identified and linked**, which correspond to SAT's Administrative Offices, the general administrations and the local administrations and customs, respectively, which gives sense to the alignment of the operation with the strategy at all levels and scopes of the institution. This disaggregation defines the characteristics and reaches in each decision level and operation scope, measuring and evaluating performance through the following indicators:

- Strategic for strategic management level;
- Specific for tactical management level;
- Operation for operational management level;
- Results, links to SAT's mission and vision.

Part two of this document describes the main results obtained from the implementation of the institution's management follow-up and performance evaluation system.

Part three refers to the problem affecting or which may affect the systems' implementation and operation.

Part four presents the strategies to respond to the problems detected, considering the regulatory scheme, **organization, processes, information and technology** (the components of the institutional architecture).

Finally, part five presents conclusions as general reflections.

I. GENERAL CHARACTERISTICS OF THE SAT'S MANAGEMENT FOLLOW-UP AND PERFORMANCE EVALUATION SYSTEM

SAT's management follow-up and performance evaluation system originates in the **Government Model for Planning, Strategic Management and Continuous Improvement** of the Institution, which identifies three management levels:

- 1) Strategic;
- 2) Tactical;
- 3) Operational.

The Government Model, which implementation process began in 2008, links the three levels of Management and allows operations to be articulated with strategy. Its main characteristics, which are described herein, are the System's reference framework.

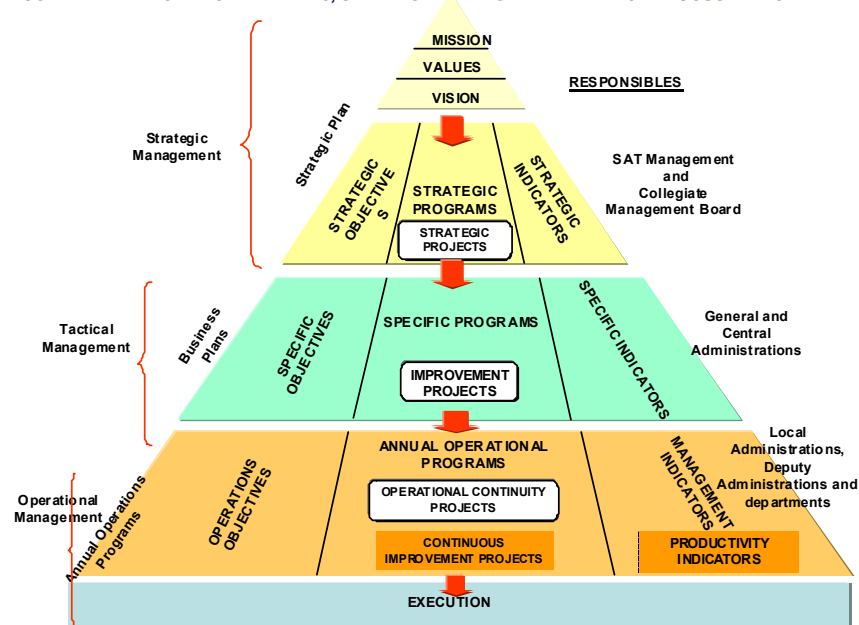
1.1 Government Model for Planning, Strategic Management and Continuous Improvement

SAT's Government Model for Planning, Strategic Management and Continuous Improvement establishes the **mechanisms for tactical and operational management** to work articulated as a consequence of **strategic management**. It links and aligns the operational programs of the local administrations and customs (operational management level), with the business models of the general administrations (tactical management level) and these with the strategic plan of the Institution (strategic management level), through cause-effect relations.

As seen in the following graph, the Model shows the hierarchy and correspondence with the management level and the organizational level, defining the type of indicators corresponding to each level.

The short, medium and long-terms are articulated with the institutional strategy, and institutional tasks are assessed in terms of results, efficacy, coverage, efficiency and quality.

GOVERNMENT MODEL ON PLANNING, STRATEGIC MANAGEMENT AND CONTINUOUS IMPROVEMENT



The Model integrates the three management levels of the Institution through the following processes:

1. Diagnostic;
2. Strategic plan;
3. Business Plan;
4. Programming and Budgeting;
5. Execution;
6. Evaluation; and
7. Continuous Improvement.

The management follow-up and performance evaluation system is located in the evaluation process, therefore its interaction with the other processes of the Model allows following-up of the actions and results, considering the short, medium and long term horizons, such as the different decision making levels and the institution's field of work.

In this manner, the different components of the system intervening in the operation are articulated, providing feedback for decision making in the strategic, tactical and operational levels.

It is important to mention that the Model also establishes the link with the institution's Projects Portfolio, to potentiate the results of the strategic, specific and operational programs, through investment programs and projects.

In summary, Government Model gives the organization the instruments required to define, rule, implement, and control and feedback the strategy and also enables the execution of the Institution's strategic plan, through the business plans of the general administrations, of the annual operational programs of the local administrations and customs and the Institution's Projects Portfolio investment programs and projects.

1.2 Strategic Maps and Management Follow-up and Performance Evaluation System

For information integration purposes and methodologically, the Government Model and, consequently, the management follow-up and performance evaluation system, is based on the institutional strategic map and the strategic maps of SAT's general administrations.

The strategic institutional map shows our objectives linked to SAT's mission and vision and orders and identifies the same pursuant to their perspective and issue, therefore it constitutes the base for the control and the evaluation of the institutional strategic plan.

The maps of the general administrations originate as from the institutional strategic map, conserving at all times its alignment and congruent with the same by showing a greater breakdown of the issues identified as strategic for the Institution.

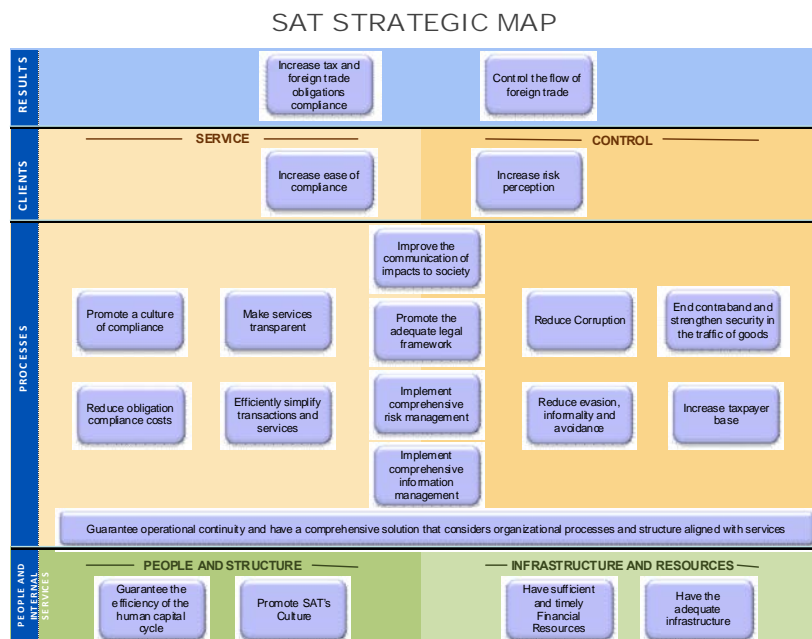
Based on the Balanced Scorecard (BSC) in SAT's 2007-2012 strategic plan, the strategic purposes are identified through the following perspectives:

1. Results;
2. Clients;
3. Internal Processes;
4. People and Services (organizational training and growth).

Similarly, four strategic issues are defined:

1. Services;
2. Control;
3. People and Structure;
4. Infrastructure and Resources.

The first two are applied to clients and processes, while the two remaining disaggregate the purpose related to people and internal services. The articulation of these spheres has been very useful for the splitting of the Institutional strategy.



1.3 Systems Indicators

The management follow-up and performance evaluation system, in agreement with the Government Model for Planning, Strategic Management and Continuous Improvement, identifies the following indicators:

- 1) Strategic;
- 2) Specific;
- 3) Operation:
 - Central
 - Local
- 4) Results or impact.

1.3.1. Strategic Indicators

These indicators are associated with the level of compliance with the strategic objectives and oversee the 14 Strategic Programs of the Institution.

Strategic indicators evaluate and feedback the Tax Administrations strategic and priorities, valuing the efficacy, efficiency and quality of the actions and services generated to increase Collection, reduce tax evasion, avoidance and contraband, increase tax efficiency and control foreign trade, among the other key objectives of SAT.

Example of SAT's strategic indicators:

- SAT's general image
- Primary collection
- Secondary Collection
- Collection efficiency
- Number of taxpayers updated
- Tax revenue managed by SAT in regards to the GDP
- General perception corruption index
- Perception in the ease of compliance with tax obligations
- Effectiveness of examination actions
- Auditable gap
- Recovery of the tax credit portfolio
- Profitability of examination actions
- Final judgments favorable to SAT
- Cost of processes
- Organizational environment

1.3.2. Specific Indicators

These are used to measure and evaluate the degree of compliance with specific programs of the general administrations in the **tactical management level**.

Similarly, the action and the relevance of the organizational structure are also evaluated, as well as the vertical and horizontal coordination mechanism among management areas responsible of executing the strategy and coordinating the operation.

Specific indicators refer to the intermediate products generated by the areas to feed strategic programs as well as specific products inherent to their functions. Management follow-up allows evaluating the actions of the general administrations in function of the entire institution. The evaluation obtained responds to coverage, quality, efficiency and efficacy in the target population criteria.

Example of SAT's specific indicators:

- Average collection by global examination actions
- Increase in primary collection by effects of the collection
- Cost of secondary collection
- Persuasive collection in regards to enforced collection
- Taxpayer risk perception due to collection actions
- Increase in the level of compliance for large taxpayers
- Coverage of physical and potential persons registered in contrast with the economically active population.
- Examination efficacy
- Percentage of in depth reviews of the total reviews practiced
- Fiscal presence
- Risk rating of foreign trade agents
- Profitability of examination actions
- Percentage of inquiries resolved and notified within the legal term established
- Percentage of trials won in final judgments
- Issued consigned in contrast with issued presented
- Degree of compliance of administrative service levels
- Quality of service

1.3.3. Operation Indicators

These are identified in the **operational management level**. These refer to the operational processes resulting from tactical management. These indicators evaluate the productivity of the programs and projects of the local administrations and the customs administrations, and the general administrations with representations in the same.

Management control in this level is addressed to the optimization of the use of resources. It responds to efficiency, productivity and quality criteria on services issues, therefore it considers the products and the inputs of the operational processes. It is the basis for the transparency of public work.

At the same time these indicators are divided into central and local:

a) Central scope operations indicators

These indicators are designed to follow-up and evaluate the operation of the general administrations, substantive operations as well as support operations.

Example of central scope operation indicators:

- Perception on customs operations
- Attention to high risk situations
- Wait times (queues) in the customs office
- Efficiency in the customs recognition process
- Fight contraband
- Advance in fiscal damages
- Effectiveness of the risk model for labels
- Information requests served on time
- Returns and compensations
- Percentage of first instance sentences favorable to SAT (amount)
- Increase in the recoverable portfolio value by the originating authority.

b) Local scope operations indicators

These indicators are designed to evaluate operational performance relating to taxpayer services, Collection, federal, juridical and foreign trade fiscal audits, performed by local administrations and customs administrations.

Example of local operations indicators (local administrations):

- Registry update
- Streamlining taxpayers that have not be located
- In-depth surveillance
- Increase in compliance
- Perception of the quality of the service
- Recovery of the credit portfolio
- Rotation of collection documents
- Auctions
- Quality in the credits inventory
- Index of final judgments awarded by amount
- Index of resolved administrative resources

- Index of penal issues requests served
- Index of favorable judgments of certain actions in indirect protection proceedings (amparo)

Example of local operation indicators (customs administrations):

- Percentage of detection, drugs and weapons confiscation and/or seizures
- Seizure of goods resulting from piracy
- Penal cases
- Detection, confiscation and/or seizures of cash (national and foreign currency)
- Orders to verify goods in transit which originated a serious incidence
- Effectiveness in the transfer of goods which property was transferred to federal tax authorities
- Recognition time (first recognition)
- Collection (passengers)
- Effectiveness of conviction resolutions issued
- Serious precedents detected during the second recognizance and not detected by the first.

1.3.4. Results or Impacts Indicators

Are the highest level of SAT indicators aggregation and allow measuring and evaluating of the Institution's comprehensive performance vis-à-vis its mission and vision.

Represent the impact of the Entity's actions in the country's socio-economic context and allow evaluating the institution's performance as a whole unit. Furthermore, they are used to prepare official reports, tax and management reports, which the institution presents periodically to different offices of the federal government as well as the Congress of the Union, on issues, such as:

- Tax efficiency;
- Real Collection behavior;
- Collection behavior by types of taxes;
- The impact of examination actions in Collection activities;
- Collection in regards to the national GDP.

1.4. Implementation of Management follow-up and Performance Evaluation System

The frequency in the measuring performance is an essential feature of SAT's management follow-up and performance evaluation system. However, the quality and the representation of the indicators generated for the measurement, is of even greater transcendence.

The starting point for the construction of indicators is the clear and agreed description of the strategy, tactics and operation. In this regard, important efforts have been made to develop indicators that provide a better representation, which consider the measurement of the Institution's comprehensive performance as well as its three levels of management.

1.4.1. Management Control of the Strategic and Specific Programs

In the current implementation stage, indicators to measure bad behavior and the results of the strategic plans was adopted, as well as determining specific programs and projects which contribute to compliance with the objectives that gave place to the same. In this manner, the follow-up and evaluation of strategic programs is done based on indicators, while for specific programs and projects it is done based on the advances in their execution. These last programs are reported through a "Project" for each specific program and project.

1.4.2. Management Control of Operation Programs

a) Local administrations

Local administrations are the 66 regional offices of SAT located throughout the country which carry out the general administration activities of Collection, legal and taxpayer services and federal fiscal audit., becoming in this manner the Windows through which all taxpayers, excepting large taxpayers, carry out practically all their fiscal transactions.

Work characteristics and burdens of these administrations are various, this is observed in factors such as the amount of the collection, and the amount of taxpayers, audits carried out, the number of judgments, the number of employees and others. In this sense, the comparison between administrative units with important differences in their results, vocation and work burdens would not be fair; therefore it would be necessary to define a model that "evaluates" them more homogeneously, to be in the position of making valid comparisons amongst them.

Therefore a decision was made to **group local administrations in seven groups** with similar characteristics. These grouping criteria also seek to generate enough incentives to promote more direct competition amongst the local administrations of the same group.

With the purpose of complimenting follow-up and obtain specific information on the performance of the local administrations, "self-evaluation questionnaires" were designed and the same were collected by those in charge of local operations. Responses to these questionnaires are reviewed periodically at headquarters, by selecting the local administrations under review.

b) Customs administrations

The General Customs Administration carries out its operations programs and projects throughout the country through its 49 customs administrations.

The system is applied in customs, based on 14 relevant indicators, performance based on those that are followed-up from headquarters.

Ten groups were formed to evaluate customs offices, and the following criteria were used:

- Type of traffic: border, inland and maritime customs;
- Operations volume: number of operations modulated by vehicle;
- Collections by passengers;
- Operations similarity by type: cargo or passengers

In this manner each group is formed by customs administrations which operation and dimensions are similar, giving place to fair comparison amongst customs belonging to the same block. The purpose is that the evaluation scheme should generate sufficient incentives to continuously improve its performance through competition among customs belonging to the same block.

II. RESULTS OBTAINED AS A RESULT OF THE GOVERNMENT MODEL OPERATION

2.1. General Results

- The Government Model for Planning, Strategic Management and Continuous Improvement was institutionalized, disseminating the regulatory framework requirement so that the planning and implementation of the strategy of the Institution and the management follow-up and performance evaluation system be done with a long, medium and short-term vision, by the linking of the strategic management, tactical and operations levels and the alignment of the operational programs with the business plans of the general administrations and these with the institutional strategic plan.
- SAT's culture has been strengthened on strategic management, management control, accountability and institutional performance evaluation issues, through its use in the daily operation of the administrative units of the institution and the unification of the administrative and operational language on these subjects.

TOPIC 3.1 (Mexico)

- All SAT director, tactical and operational areas are involved in the implementation and operation of the Government Model for Planning, Strategic Management and Continuous Improvement y del Management follow-up and performance evaluation system, at headquarters level as well as throughout the country, at the offices that form part of local administrations and customs.
- The organization, daily operation and operational budget was aligned with the strategic institutional plan and the business plans of the general administrations, as well as with the programs, processes and projects deriving from the same.
- Greater congruence among products, services and results generated by the general administrations was generated with the strategic goals and targets, as well as with the institution's budgetary process.
- Standardization of concepts, methodologies and procedures for the preparation, execution, control and evaluation of the strategy, tactic and institutional operation at all levels and scopes of SAT.
- Commitments and responsibilities were defined and made more transparent for the implementation and operation of the management follow-up and performance evaluation system at all areas and levels of SAT.
- A local website was built as well as the necessary repositories to generate an information structure of strategic, tactic and operation components to register, give follow-up and evaluate the results obtained by the different levels and scopes of SAT, resulting in more efficient decision-making.

2.2. The General Administrations Participation

- Prepare, implement and execute their business plans and the specific programs, projects and processes that form part of the same in agreement with the Institution's strategic plan.
- Register their business plans, programs, projects, objectives, indicators and goals, among other components of strategic planning, to set-up and maintain the respective catalogs permanently updated.
- Formulate and disseminate the strategic map of its general administration.
- Align their organization and resources in agreement with their Business line or lines and with its Business Plan.
- Align their daily operation to the institutional strategy and to their business plans.
- Apply continuous of programs in agreement with the evaluation of its action.
- Define and report their indicators as set forth in the Government Model and for the management follow-up and performance evaluation system.

2.3. Results on the Subject of Focusing on the Strategy

During 2008, the group of Programs of strategic nature was revised by the Board of Directors (SAT's CEO and General Manager) and this resulted in the reduction of the universe of strategic programs from a total of 56 programs in effect in 2007, to 14 strategic programs for the term 2008-2012.

1. Large Taxpayers Program.
2. Program to Strengthen Taxpaying Culture.
3. Program to Facilitate Compliance with Tax Obligations.
4. Program to Align and Systematize Processes.
5. Comprehensive Intelligence Program.
6. Program to Improve the Defense of Tax Interest.
7. Program to Improve Collection.
8. Human Capital Program.
9. Program to Fight Corruption.
10. Program for Coordination with States.
11. Program to Facilitate Foreign Trade.
12. Technological and Infrastructure Modernization Program for Foreign Trade.
13. Program for Foreign Trade Control and Security.
14. Program to Strengthen Customs Operations

These programs are the shared responsibility of the different general administrations and one of them, pursuant to the business line under its responsibility, is appointed as responsible for its compliance, while the others are appointed as correspondents.

III. PROBLEMS OBSERVED DURING IMPLEMENTATION AND OPERATION

The problem for the full implementation and operation of the Government Model and the management follow-up and performance evaluation system is centered in the following aspects:

- SAT does not have a planning culture consolidated.
- The measurement, follow-up and performance evaluation must be ruled to be applied fairly.
- The execution and operations areas use planning strategic Management standards as reference documents, but not as effective instruments for the operation and control of their daily work;
- The interrelation of operational areas and the area responsible of implementing and operating the system is insufficient;
- The termination of the strategic plans and programs of the institutional budgetary process forces areas to comply with a double

disassociation exercise among themselves: planning and programming - budgeting;

- Indicators used by the general administrations make difficult the comprehensive evaluation of institutional performance, because substantive processes, such as support and assistance are disassociated from strategic planning;
- Lack of historical series indicators databases which allow management and in-depth performance analysis;
- Information available is not homogeneous or sufficient to perform adequate diagnostics of the needs of the institution, the taxpayers and/or the customs users;
- Information exchanged by areas is scarce, thus making difficult the execution, control and evaluation of shared strategic programs;
- Self-evaluation culture has not been developed because it generates fears because of management control and performance evaluation, causing areas to commit with targets under their installed capacity.

In summary:

- Control of activities and expenses is preferred over the evaluation of the results;
- Institutional evaluation as well as the evaluation of the areas is based on goals attained and not results;
- Resistance to the development of the strategic management culture continues, as well as its follow-up and performance evaluation because the regulatory instruments that establish their need and fairness and define their responsibilities, roles, management instances and coordination are not at hand;
- It is difficult to identify and quantify the contribution of the areas towards the institutional results, since its indicators are more centered on operational efficiency than in the efficacy of the programs.

IV. STRATEGIES TO ADDRESS THE PROBLEMS OBSERVED

Measures to facilitate the implementation of the Government Model and the management follow-up and performance evaluation system, as well as to anticipate and counteract the abovementioned problems, were defined by considering the five dimensions that constitute SAT's Institutional Architecture: regulations, organization, processes, information and technology.

4.1 Strategies on the Subject of Regulation

On the subject of regulation it was mandatory to prepare, agree and implement the necessary specific regulations to have a reference framework and the behavior guidelines to implement the Government Model and the management follow-up and performance evaluation system, in agreement with the regulatory framework that rules SAT. In this regard the following internal regulations have been issued:

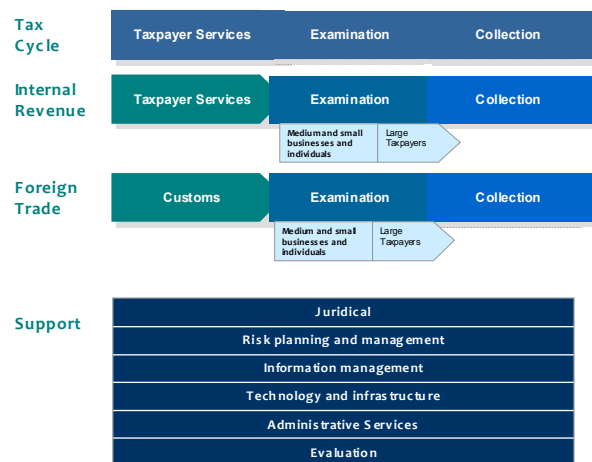
1. Guidelines to regulate the Government Model for Planning, Strategic Management and Continuous Improvement;
2. Guidelines for Follow-up, Evaluation and Planning Supervision and SAT's Strategic Management;
3. Regulation of the SAT's Collegiate Management Committee and its Specific Collegiate Committees;
4. Guidelines to Rule SAT's Project Management Cycle;
5. Guidelines for Follow-up, Evaluation and Project Management Supervision Cycle.

4.2 Strategies on the Subject of Organization

This dimension refers to the organizational structure linked to the execution of activities that form the processes, through which the three levels of management are linked.

4.2.1 Organizational Structure Focused on Processes and Services

There is a close relation between the strategy and the organizational structure, therefore a decision was made to align the institutional organization to processes instead of doing it by functions, as it had been worked to date.



4.2.2 Collegiate Management Committee

Another provision that was taken was the formalization of the Collegiate Management Committee as coordination, follow-up and evaluation body of senior management. This Committee analyzes, agrees and instruments the strategies and priorities of the Strategic Plan of SAT; it provides follow-up to the management and evaluation of institutional results and defines and coordinates the relevant actions to adjust scopes, change, strengthen or disregard any strategy or incorporate new options.

The Central Planning and Evaluation Committee depend on this Committee as well as the work groups, which provide follow-up and evaluate the institutional work pursuant to the following three types of taxpayers:

- Large taxpayers;
- Internal revenue;
- Foreign trade.

4.3.Strategies on the Issue of Processes

This dimension considers two strategies.

4.3.1 The Government Model link with SAT Substantive and Support Processes

The strategy defined is the focus of systems and processes to form the three levels of management with the substantive processes of support and assistance.

4.3.2 The Government Model link with the Planning, Programming and Budgeting Process of the Federal Government

This is an alignment strategy. The objectives of budgetary programs, business plans, programs and specific projects are aligned with objectives, priorities and strategies of the strategic plan of SAT which at the same time is aligned to the Sector's program and the National Development Plan (PND, in Spanish). The performance indicators of the budgetary programs are aligned with those established in the strategic plan of SAT. The goals for the indicators of the budgetary programs are established in function of the budgetary assignments.

4.4.Strategies on the Issue of Information

Guidelines for this dimension are intended for SAT to generate, process and conserve the necessary information which allows timely assessment of the efficiency of the processes, the impact of the results, performance evaluation and carry out planning in the three levels of management.

4.5. Strategies on the Issue of Technology

This dimension of the Institutional Architecture of SAT refers to the technological Framework to rule the incorporation of the applications that support the Entities' processes, as well as the institutional repositories that store the information thereof. In this field the IT tools, the systems and websites required for institutional applications stand out.

4.5.1 Website for the Management follow-up and Performance Evaluation System

The management follow-up and performance evaluation system operates through an expressively Website designed, whereby the areas of SAT that supply the information necessary for their evaluation have access to the results of the same.

The website is framed institutionally in a processes alignment and systematization initiative, which purpose is to simplify procedures, capitalize best practices and automate operations.

The website complies with three basic functions:

- To serve as a communications interface between the site's operator and the users areas of the same;
- To contain an evaluation board in order for the areas to know the advance achieved from its indicators and extract information for its diagnostic, planning, follow-up, control and evaluation activities;
- To produce advance reports by area, objective, program, indicator and goal, pursuant to the classification or grouping catalogues, which facilitate inference in regards to the results and the efficiency of the strategic management.

Depending on the Management level applied to the indicators the performance of SAT is measured and evaluated.

Currently, work is being carried out so that in near future, workers' performance evaluation is done base don their contributions to the institution's daily tasks.

V. CONCLUSIONS

1. Subsequent traditional follow-up and management evaluation approaches are practices that are still too rooted in the culture of the public administrations; this makes the conception, implementation and operation of modern systems to evaluate the actions of public entities from various perspectives (results or impact, coverage, efficacy, quality, efficiency, productivity) instead of audits difficult, as the usual practice.
2. The modern and comprehensive sense of control of public management is real time follow-up, evaluation and feedback of government actions, with the purpose of:
 - a) Prevention of deviations;
 - b) Comprehensive self-assessment of the Institution and its results;
 - c) Feedback for strategic planning and operation;
 - d) Support for decision-making;
 - e) Transparency and accountability.
3. The new challenges posed by globalization, Information and Communication Technology (ICT) and the permanent innovation on the subject of tax strategies and financial instruments used by corporations and multinational companies throughout the world, render obsolete the paradigms ruling the organization y operation of the tax administrations. To anticipate and efficiently respond to the new challenges of the modern world, the traditional forms of work of the tax administrations must be substituted by strategic management and risk management approaches, where the only constant is constant change.
4. Management and indicators control for performance measurement represent an important role in the strategies' feedback, as well as to align and make more efficient the operation of tax administrations. However, management control, without a sound reference framework given by the strategy, becomes a fragmented and sterile exercise of reports on the institution's day-to-day operation, which conceal all sorts of deficiencies.
5. In modern tax systems, the operation without the strategy is blind; similarly, the strategy detached from the operation becomes a mere intellectual exercise.
6. The Government Model for Planning, Strategic Management and Continuous Improvement is the base to implement and operate strategic management, management follow-up and performance evaluation, in agreement with the institutional strategic plan, the business plans of the general administrations and the operational programs at the Institutions' management levels.

7. Strategic, specific and operation programs, as well as its respective indicators, goals and components, continue with the review and adaptation process until it reaches the desired levels for the evaluation institutional performance.

The Institution is considered to be in the first stage of maturity for the comprehensive evaluation of institutional performance, therefore, it is foreseen that this review, changes and adjustment process will conclude in 2010, regardless of the annual adaptations required by the institution's strategic plan.

Case study

Topic 3.2

**KEY SUCCESS FACTORS OF VIRTUAL TRAINING:
IT TOOLS, CONTENTS, TUTORS AND MANAGEMENT
CIAT'S STRATEGY**

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SUMMARY: Introduction.- I. Human resources management: CIAT training and e-learning strategy.- i. The relevance of HR management.- ii. CIAT's e-learning strategy.- II. Key factors to be considered for implementing the modality.- i. Designing the strategy.- ii. IT platform.- iii. The Tutor.- iv. Educational material.- v. The student.- III. Results obtained so far. What have been the main obstacles faced and strategies implemented and developed to overcome them.- i. Training Evaluation.- ii. CIAT's results.- iii. Obstacles.- iv. Future trends and topics to be considered.- V. Conclusions

INTRODUCTION

E-learning, is a distance education concept where the use of information technologies and other educational (teaching) elements are integrated to develop, train and teach online users or students, that is, it may be understood as a learning modality within Distance Learning and is defined as e-learning. It uses different elements and means, such as the Internet, Intranets, CD-ROMs, productions multimedia (texts, images, audio, video, etc.), among others... Literally, e-learning is learning with electronic means: technology guided learning¹.

¹ Definition given by Wikipedia.

TOPIC 3.2 (CIAT)

Based on the above definition, the topic of this practical case, based on CIAT's experience will be analyzed, which is relatively recent, it was cautiously, but decisively implemented in July 2004. Perhaps this is the first win, to carry the program from less to more, constantly and soundly.

Based on this experience and on the experience complied from member countries, this practical case will succinctly present and analyze the main aspects that led the Center to opt for virtual training, considering the organization's mission, vision and the institutional objectives and strategies, defined by the their own member countries. Similarly, obstacles and how to overcome them will be considered, as well as the results obtained to date, the trends that must be overcome and considered in the short, medium and long-term to consolidate, not virtual training per se, but CIAT's training strategy and in the same, virtual education as a tool that has proven to be effective and proficient in meeting the Center's objectives.

Similarly, the Center is responsible of complementing the programs of its member countries in issues pertaining to taxation, but also to identify efficient, efficacious and in some cases innovative practices, so the training programs of the Tax Administrations are successfully carried out from the point of view of not only the contexts but of the tools that facilitate education. Therefore, the conclusions of the Seminar "**Key Success Factors of Virtual Training: IT Tools, contents, Tutors and Management,**" an event organized by CIAT in May 2007 will be taken as a starting point. This seminar was attended by important officials from member countries, with ample and little experience on the topics covered, resulting in the decision on the most important aspects to be taken into consideration for the implementation, improvement and in sum, the success of virtual training as a strategic tool when executing an institutional training plan.

More important than the analysis and the results presented herein, I must take a minute or maybe two, however, time shall not be enough, to recall, thank, and not thoughtlessly forget a dear friend who would surely be present here today at this General Assembly. I'm talking about Professor Hugo González Cano, who CIAT and I personally, are indebted to him because of not only his generous disposition to collaborate with any initiative of the Center, which until the last moment as the Coordinator of our Specialized Course in Tax Policy and Technique, but he also gave us his friendship, good humor and evident chivalry and who even forgave me for calling him in public the "The King of Merengue and Miloga," not because this is not true but because of his foolproof modesty.

I. HUMAN RESOURCES MANAGEMENT: CIAT TRAINING AND E-LEARNING STRATEGY

i. The Relevance of HR Management

The importance of HR in the tax administration has been amply reiterated by CIAT, not only through different presentations prepared and presented within the Framework of the General Assemblies and Technical Conferences, but also through manuals and models that have been developed and put at the disposal of the TAs to assist them in their management.

Recent evidence of this, among other, is CIAT's Manual for the Management of HR, which will be put at the disposal of the member countries during October this year. The same contains the most important issues related to performance management, recruitment, selection, training, career path and the promotion of ethics, among others.

Therefore it is necessary to reiterate the important role that the personnel of a tax administration play and the need to strengthen that human capital to strengthen and consolidate the tax administration itself. In this regard, it is import to quote Dr. Claudino Pita, CIAT's Executive Secretary:

".....all functions and purposes of a modern tax administration, regarding its possibilities of success, are supported on a tripod formed by information, technology and human resources that it has available. However, if we turn this into a mathematical formula, we would have to say that while information and technology is the addition portion, human resources are the multiplier of the result of that sum"².

Now if human resources are the multipliers in this tripod of success of the tax administration, training, I have mentioned before, is the factor impelling human resources in the tax administration to the "n" power.

This is expressed in the following mathematical formula:

$$\text{TA Success} = \text{Information} + \text{Technology} \times \text{RH} \times \text{Training} = (\text{RH}^n)$$

² Pita, Claudino in the General Rapporteur Report, 38th CIAT General Assembly, Bolivia, 2004; IEF; p 260.

This document analyzes the combination of two factors that when applied to HR Management can positively vary the results for the tax administration. These are: **Technology** and **Training** or better said, Technology applied to Training understanding that any tool, technological or not, must be at the service of the administration, and not vice versa.

ii. CIAT's E-learning Strategy

As well as any area of the tax administration, HR Management and training in the same is benefited from the advantages that technology can provide in terms of efficiency.

Recently, we could say that during the last decade, solution alternatives through e-learning have attained greater prevalence in any organization and are seen as effective tools to achieve concrete solutions at a relatively low cost.

Within CIAT's Training Strategy, "e-learning" has followed the steps and has submitted to the analysis and the considerations that any tax administration would carry out prior to implementing this alternative as a useful instrument in attaining their objectives.

The first analysis to define the Strategy or the starting point that must be set forth in the organization's Strategic Plan. In CIAT's case, the basis of the training program are the Strategic Directions contained in the 2007-2010 Strategic Plan and specifically the direction relating to training in member countries, namely:

Strategic Direction N° 3:

To promote and execute training and professional development activities for tax administrations officials, and provide technical assistance in this field for countries requesting the same.

This Direction contains, mainly the essence of CIAT's training program and foresees its development through three Strategic Initiatives³.

³ **Strategic Initiative N° 3 A**

Support to the creation and development of training centers in member countries.

Strategic Initiative N° 3 B

Promote the offer of training programs on tax legislation and the tax administrations.

Strategic Initiative N° 3 C

Promote the exchange of officials-teachers from the different areas of the tax administrations of the member countries, to execute training activities.

The Strategic Plan in Strategic Direction No 3 as well as the other directions complementing this one contains the challenges and tasks that the Center must undertake to meet the strategic objectives as well as the key aspects thereof, which can be summarized, as follows:

Strategic Objective:

To promote and facilitate the transfer of knowledge towards and between the TAs of the member countries, as a key aspect for the strengthening thereof with the purpose of generating a tax culture;

Regarding the key aspects to comply with said strategic objective, these are summarized in the following table.



Particularly **Strategic Initiative IA**: Promote and execute training and professional development activities in the legislation and the tax administration, which is also considered within the key aspects, such as: the offer of multilingual training programs on legislation and tax administration was the most complex for CIAT. In person meetings had been carried out and the same had and still have the support of the member countries and other international organizations, the field of action is limited and the same are addressed more to discuss very punctual or specific issues.

TOPIC 3.2 (CIAT)

Considering the limitations posed by the in person seminars or activities regarding coverage and theme, it was important to consider other options to overcome the barriers imposed in practice by the modality, in spite of all the positive aspects that may be highlighted on the same. Without abandoning the in class modality which continues to be used for the specific topics and audiences it addresses.

Regarding coverage, with the exception of very short-term activities, in class training limits the number of participants, not only to assure the efficacy of the methodology, even more in the case of the countries members of CIAT, but because of the high cost incurred when mobilizing participants as well as organizing the meeting, in terms of the logistics required. Similarly, in the case of the Center, when analyzing the number of potential participants, there was a broad spectrum, therefore, it was necessary to adopt innovative strategies to meet the demand.

In terms of the topics, it was concluded that according to the experience resulting from the **Strengthening of Training Centers BID/CIAT/AEAT/IEF/SAT⁴** Project, that many officials, specially from Latin America and the Caribbean, did not have - because it was missing in the national professional development plans or in the organization's training plan - the fundamental or strategic knowledge on taxation issues: tax policy and techniques, tax law, tax administration and international taxation, which should not be seen as value added or a luxury, but as the main base to fully develop their tasks and improve the tax administration's management.

In addition to the subject matter factor, considerable time is required to teach the fundamental knowledge of the training plan that could easily be compared to a post-graduate program, which execution involves beforehand high costs if it were to be taught in-class, in person.

These conditions, coverage and the fundamental tax subject matter, in addition to the duration of the programs, constitute some of the main factors that give place to the re-direction and strengthening CIAT's Training Strategy as from the year 2005, which are analyzed in detail in item II of this paper.

The reasons or the arguments leading CIAT to decide for e-learning as a valid tool to execute its training program, can be summarized in the words expressed by Pierre Lafamme⁵, an official of Canada's Tax Administration when speaking about the origins of e-learning in his organization:

⁴ *Strengthening of Training Centers Project*

⁵ *Paper presented during the SEMINAR - WORKSHOP ON KEY SUCCESS FACTORS OF VIRTUAL TRAINING: IT TOOLS, CONTENTS, TUTOR AND ADMINISTRATION, PANAMA CITY, JUNE 10 - 12, 2007.*

What drives on-line learning?

From the organization's point of view:

- Ease and speed in updating knowledge
- Timely training
- The search for profitable Solutions to reach disperse personnel - greater scope and coverage
- The need to find new learning models
- Increased efficacy
- Reduced learning times
- Coherence and consistency in the contents taught
- Share knowledge
- Less costs

From the technological point of view:

- On the job and at home Internet access
- Standards facilitate compatibility and manageability
- Increased bandwidth allows rich multimedia interactive contents
- High-quality on-line products and services

However, as Pierre superbly asserts, not all are positive aspects, the disadvantages must also be assess when deciding on implementing the modality, and these are summarized as follows:

- A more significant initial investment
- Access limits
- Limitations in the technological infrastructure that the administration may have available.
- Technical literacy and change Management, which are influenced by aspects such as age and technological culture.
- Reduced social and cultural interaction. Students may have feelings of abandonment or loneliness during their development process.
- It is not applicable to all study topics. Topics where the student's in-class presence is considered to be the primary element in learning, it is not advisable to offer these through this method.

II. KEY FACTORS TO BE CONSIDERED FOR IMPLEMENTING THE MODALITY

Based on the conclusions of the Seminar organized by CIAT in June 2007 and in the experience of the Center, we can summarize and group the most relevant aspects to implement e-learning in any organization, including the use of technological platforms, in the following manner:

i. Designing the Strategy

a. Analysis Phase: the crucial aspects that will influence decision making on whether or not this training modality will be implemented. It includes, among others, the following issues:

- Diagnose of the current situation of the training plan and its execution. It answers, among other things, the following questions:
 - What is the current situation of the tax administration regarding the training program?
 - What is the future perspective of the tax administration regarding the training program?
 - What are the training needs of the administration, what areas and what issues are in great demand?
 - What is the cost of the operational training plan in development? What is the return on your investment?⁶ (If it is possible to establish the same).
 - What is the coverage at the level of officials benefited and issues covered?
 - How many and is the profile of the faculty the tax administration has available?
- Reasons to justify or not the implementation of e-learning and the use of a technological platform on a tax administration where, for example, through a SWOT analysis the following aspects are considered:
 - Alignment of the implementation strategy with the organization's Strategic Plan.
 - Determination of which is the strategic value of e-learning for the tax administration

⁶ *The return on the investment made in training is a complex measurement to perform and which results are not accurate. There are methods used in both the private and public sector to determine the cost-benefit ratio between the investment and what is obtained.*

- Establishment of the short, medium and long-term economic advantages of the e-learning project. (Hardware and software purchases, personnel training, etc.).
- The project's sustainability in the medium and long-term.
- The degree of democratization of the expected knowledge and updating of human capital.
- Reduction in estimated times with the use of the modality.
- Availability of technological resources
- Risk analysis: possible disadvantages or risks if the modality is implemented: cost, lack of technological resources, difficulty in recruiting or contracting human capital to assume the role of tutors and educational advisors to adapt contents, operational capacity limitations, resistance to change by officials.
- Availability of technical materials to serve as a basis for the design of the courses.
- Operational capacity for the administration and follow-up of e-learning courses
- The support of the organization's Top Management
- Combine virtual and in-class training (blend training)

b. Implementation Phase

- Develop an e-learning implementation strategy that considers:
 - Top management support.
 - Alignment with the strategic goals of the administration and with each of its areas: ICT, HR, Collection, Examination, etc.
 - Conceive e-learning as a continuous plan/program, and as one more offer, among the educational options of the tax administration. E-learning is tool that complements training modalities in force; it must not necessarily substitute the same.
 - State the project's scope through the establishment of achievement phases, establishing compliance with partial objectives or advances.
- Establish an operational or tactical plan for the implementation of the e-learning project.
 - Define the tactical objectives of e-learning and their alignment with the organization's strategic plan and the training strategic plan.
 - Establish activities to be developed to attain the objectives of the operational plan.
 - Establish indicators for each objective as from the activities and establish a method receive feedback on the Project.

TOPIC 3.2 (CIAT)

- State awareness tactics focused on reducing the impact of resistance to change (transformation of paradigms) as from risk analysis.
- State tactics to prevent or reduce the impact of key obstacles or risks (disadvantages). Establish contingency premises.
- Prepare the budget for the e-learning project.
 - Must be aligned with the operational and strategic plan.
 - Must be aligned with the project's strategic allies, i.e., IT area.
- Organize the resources to be used for the project:
 - Human capital
 - Areas involved
 - Responsible area
 - Assignment of resources pursuant to the operational plan and budget
 - Technological resources required
 - Other resources: materials and equipment

ii. IT Platform

The current offer of technological tools at the service of e-learning is ample and varied. Unlike what happened years ago when the method was just beginning, open source software becomes an interesting and excellent alternative for any organization. Logically this option entails the development of modules or compliments that each organization must assume if it wishes to modify the original features of the program.

CIAT has experienced e-learning through the use of licensed and open source software (Moodle) which is the one that it currently uses.

To determine the software to be purchased or used, during the Seminar organized by CIAT and held in Panama a checklist was developed to identify the most relevant issues to be taken into consideration during a first analysis of this training alternative. Similarly, to decide on the platform to adopt, CIAT analyzed and quoted some options available in the market, and compared prices, features available and support offered.

Undoubtedly, this list cannot be limited to the aspects mentioned herein, because each tax administration must analyze, from its own point of view and circumstances, which should be the topics to consider and their priority.

Therefore, we first begin this list with a consideration:

- To select a IT platform:
 - There are not pre-established recipes
 - The decision depends on objective, subjective and situational aspects.
 - What is good for an administration is not necessarily good for others.
 - It is important to carry out benchmarking of lessons learned in the TAs where the e-learning modality has been implemented.
 - Options to be considered will be more or less complex depending on the degree of communication tools required. That is, if you are thinking about the inclusion of videos, video conferences, simulators, etc.
 - E-learning does not exclude in-class training, but activities can be combined so that they complement each other. For example, work support or evaluations must be done in-class.

Among the subjective aspects to be considered, the following are important:

- **Functional requirements:** analyze the options offered by the different technological alternatives that allow:
 - The easy and effective management of resources.
 - The development of technical contents through tutorials or evaluate the alternative of outsourcing.
 - Follow-up and track courses, tutors and students.
 - Students, tutors and course evaluations, as such, including the same technological tool.
 - The possibility of obtaining and exporting to other file formats, periodical and final reports on the course's development and the evaluation thereof.
- **Technical Requirements:**
 - Minimum technical requirements for each software considered as an alternative.
 - Analysis of the infrastructure that the tax administration has at the IT level, such as hardware and everything relating to software.
 - Human resources specialized in IT to support the project.
 - Hosting: which will be the decision regarding the repository for the courses: contract an external server or a server hosted by the tax administration? This issue directly influences the administration of the software such as, since it implies the

designation of the person or persons responsible of updating the different versions of the program, information security copies, technical support, etc.

- Cost-benefit ratio between the investment to be made and the benefits to be obtained, pursuant to the alternatives analyzed.
- **Weighting of Features:** Within the features of the different options it is advisable to establish where are those of greatest interest for the administration in agreement with the priorities and strategies defined.

A fundamental point is to know if the organization can and decides to Outsource the administration of the courses, including the hosting of the same and the design of the self-development materials, being only in charge of the technical follow-up at the level of tutors and general supervision of the courses.

"Can," because the cost of this service can be high because of the potential number of students that will receive the courses. Therefore, in most cases, this is the basis for the companies that provide these services take as reference to estimate the cost thereof.

- **Comparison of Solutions:** comparative analysis of the different options available, including the technical, fundamental and financial aspects in agreement with the previously designed strategic plan, which, as said before, must also consider a budgetary plan.
- **Selection of LMS:** The best solution will be the one that adjusts the most to the strategy defined by the administration in agreement to their needs, realities and the availability of human, technological and financial resources.

iii. The Tutor

Tutors are in charge of carrying out orientation sessions on technical contents. Their participation is essential within the implementation of e-learning because it is responsible of serving as a contract between the virtual World and the real World through the support provided to students in regards to the technical issues covered. **The tutor is the guide, the motivator and the leader of the e-learning process.** The tutor is also a source of an invaluable feedback for the organization.

For the Executive Secretariat, the tutor is a facilitator and a representative of the organization before the institutions and persons that participate in courses, and in most courses the tutors are officials of the TAs of the member countries.

Also, every course is a means to inform participating officials, the services that the organization offers and at the same time, a means to obtain important and interesting statements and the opinions of the people that live daily with relevant and current issues.

On the subject of the checklist on key aspects to consider concerning tutors, the following may be determined:

- Must be an expert on the issue or issues to be developed during the course.
- Must constantly update their knowledge
- Must have the educational knowledge
- Must have the management of the platform and mainly the features relating to their job: test evaluations, forums, chats, etc.
- Must have clear academic conditions of the course to manage.
- Must have the possibility of combining their tutor role with other activities to prevent the excessive wearing out as a result of their tutorial activities.

iv. Educational Material

Technical materials are a fundamental element in e-learning, because based on these the professor and the student develops.

In the case of the courses offered by CIAT, material has been developed as lessons taught by Experts on the issue.

Learning by lessons allows professors as well as students to have a better control of the learning and the activities designed to reinforce the same.

Currently, CIAT has worked on designing excellent technical contents which are updated and improved through the periodical review of contents by Experts on the issue and feedback obtained from tutors and students. However, the presentation and editing of the same must be improved, and with this in mind software was purchased and the same will improve the interactivity and the presentation of the courses.

Another important aspect to be considered is the participation of educational advisors, in charge of providing the adequate structure to the course to turn it into material that is fit for self-development education. These advisors are important support for the training and follow-of the course, providing support and orientation in the development of their educational tasks.

The degree of intervention of the educational advisors will depend on the subject matter of the course because it determines the design required, considering the public it is addresses. Various TAs have their educational advisors and course designers.

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This is not the case of CIAT because of the limitations of its current staff, the cost that this entails and the level of design given to the courses. In this sense it is important to consider, as it was mentioned in the design of the implementation strategy of this modality, which is the future perspective and the scope that e-learning is going to have in the organization so that it justifies the disposition of a multidisciplinary and broad human resources team. That is, the sustainability and the continuity of the project as such.

An e-learning project that begins by generating great expectations, which later are impossible to continue because of the organization's budgetary restrictions or changes in its priorities, it creates great disenchantment and lack of credibility in the human resource and negatively predisposes it to accept similar projects in the future.

Some of the most relevant aspects to be considered regarding technical materials in the checklist are:

- Conditions or background: The plan of the courses to be developed must be based on the training needs diagnose.
- Develop the course plan, defining:
 - The course's learning objectives
 - Target group: how it learns easier and therefore how to present the contents
 - Duration
 - Conditions for the realization
- Establish the balance between the educational ideal and what is technically possible to do. Not starting from complex or costly designs.
 - Design the course considering a versatile structure to update contents.
 - Define the methodology and the instruments to be used.
 - Define the synchronous or asynchronous tools to be used.
- Development of contents in agreement with the responsibility that they have: the educational advisor, the technical expert author of the contents, the graphical designer and the IT personnel required)
- Carry out the activities plan that forms part of the course: execution timetable, development of lessons, intermediate tests, final tests, complementary materials, etc.

- Carry out a pilot test of the course, in order to:
 - Obtain validation of the contents and the educational and IT design.
 - Feedback on all the aspects related to the course.
- Implementation and execution
- Evaluation and monitoring
- Feedback that determines the needs for design and contents adjustments.

v. The Student

CIAT has attempted to a maximum to perfect the information the student receives so that it can have clear the entire procedure from the enrollment in the course up to its termination. (Student guides).

The familiarization of people with the use of the platform, significantly contributes to take advantage of the time and the course and consequently to its success.

III. RESULTS OBTAINED SO FAR. WHAT HAVE BEEN THE MAIN OBSTACLES FACED AND STRATEGIES IMPLEMENTED AND DEVELOPED TO OVERCOME THEM

i. Training Evaluation

Worldwide, many different evaluation models are applied in training, and so far it cannot be said that one is better or more complete than another one, because the final goal, which is to measure the impact of training in the organization and determine what is the return on what has been invested in training programs, is highly complex and costly.

The most used model is the one designed by Donald Kirkpatrick, considered as the pioneer evaluation model. Ever since its appearance in 1959, it has stood out for its simplicity, flexibility and coverage characteristics. It is composed of four levels, arrayed in a hierarchy in such a way that evaluation always begins on level I and ends in level IV, and each level is the basis upon which the following are built.

These levels are:

- Level I: Evaluate Reaction.
- Level II: Evaluate Learning.
- Level III: Evaluate Behavior.
- Level IV: Evaluate Results.

Later, in 1997, Jack Phillips, based on the Kirkpatrick Model, developed Level IV "Evaluate Results", establishing a series of phases that give enable the establishment of a Level V called: ROI (Return on Investment). These phases may be summarized as follows:

- Data collection.
- Isolation of the training effects.
- Conversion to monetary values.
- Classification of benefits: monetary and non-monetary
- Return on Investment (ROI) calculation

This document will not discuss the models in depth in order to determine which is better than another and how they are applied, but rather proposes that they serve as reference to determine what has been done so far in the matter and what is yet to be done.

CIAT and, generally, all TAs, evaluate levels I and II of the models mentioned above. That is to say, the student's reaction to logistic, technical and technological aspects of the course is always evaluated. (The student's level of satisfaction with respect to administrative support, the quality of materials or contents, follow-up or tutorials and the facilities of the platform for the development of the course, in conformity to the structure given to the same).

With respect to Level II, learning evaluation, this is done through tests, written papers, and participation in forums, among others, where the level of knowledge acquired by the student is measured and whether the same passed the course or not is determined.

These two levels are permanently and constantly applied and provide feedback to the administration to improve specific aspects of its own processes.

Now, Levels III, IV and V, the latter added by Phillips, are applied by some TAs but not by CIAT.

Perform an evaluation to establish how received training influences better behavior and greater skills acquired by the official in his work, that is to say, how training contributed to the application of new knowledge to improve the

development of the official's work, on the one hand; (Level III Evaluation of behavior), or establish the scope of greater and better results of an area and of an administration as result of the training of their officials (Level IV Evaluate results), or finally what is the return on investment in training (Level V evaluation ROI), requires great efforts from the human resources areas, considerable financial investment and commitment from the organization at the middle and top management level.

Creating groups to track work performed carried out by trained officials, design and application of surveys, performing interviews, monitoring by the immediate chiefs of the work performed by their reports and top management's support to the process are required among other key aspects, specially for levels III, IV and V. The impact training has on the organization's results may be measured in that manner, at the level of increase in efficiency and of the return on the investment made.

These are processes that demand time, dedication, continuity and specialized personnel to guarantee reliable and objective results. These are some of the main reasons why these types of evaluations are not permanent or generalized but rather sporadic and focalized.

There is factor in CIAT that makes more complex the application of the evaluation levels mentioned above. This is the students' origin, because they come from diverse TAs and, therefore, the difficulty to track their work. These three aspects can only be measured by the TAs themselves, differentiating between officials that have taken courses given by CIAT and other officials.

ii. CIAT's Results

Having made, in the foregoing section, the clarification of the evaluations made by the Center, the results obtained from the beginning (tables 1a and table 1b) of the program up to now, considering the 3,332 students trained (see table 2), are as follows:

Table 1 a

Period	2004-2005			2005-2006		2006-2007		2007-2008			
AVERAGED DETAILS	Certificate 1ed		Certificate 2ed	Certificate 3ed	Certificate 4ed	Certificate 5ed	Certificate 6ed AB	Certificate 6ed C	CT Ed Esp 2007	CEPT 2ed	CIOF 1ed
	No. of participants	51,67	47,00	44,00	53,33	57,00	45,00	20,33	228,25	207,00	28,00
	No. students approved	48,33	45,00	37,67	41,33	53,00	30,75	16,33	196,25	148,00	20,00
	No. of not approved	2,00	0,00	2,33	4,00	2,00	7,75	2,33	11,50	18,00	3,00
	No. students retired	1,33	6,00	4,00	8,00	2,00	6,50	2,00	20,50	20,00	5,00
	No. students reincorporated (in cycle)	-	-	3,00	4,33	4,00	-	-	-	-	-
	Average grade (approved)	90,43%	92,63%	87,07%	89,81%	89,25%	88,56%	89,34%	89,26%	88,33%	91,80%
	Evaluation of modules										
	Operation of virtual campus	-	-	4,69	4,73	4,50	4,53	4,22	4,57	4,47	4,88
	Support material	-	-	4,57	4,59	4,52	4,40	4,27	4,48	4,48	4,88
	Technical material	-	-	4,55	4,36	4,41	4,09	4,25	4,37	4,36	4,71
	Administrative & IT support	-	-	4,24	4,50	4,35	3,72	3,51	4,38	4,49	4,94
Academic support	-	-	3,96	4,23	4,15	3,60	3,92	4,59	4,59	4,76	
Others											

Table 1 b

Period	2008-2009								
AVERAGED DETAILS	CT Ed Spc 2008 (Spanish)	CT Ed Spc 2008 (Aux)	CT Ed Spc 2008 (English)	CEPT 3ed	CIOF 2ed	CIOF 3ed	CPT 1Ed	CEAT 1ed	
	No. of participants	230,33	18,67	28,50	69,00	51,00	23,00	101,00	230,00
	No. students approved	182,67	13,67	22,50	27,00	49,00	18,00	72,50	149,00
	No. of not approved	32,33	2,33	1,00	11,00	-	5,00	9,00	24,00
	No. students retired	8,67	2,33	3,25	7,00	2,00	-	10,00	20,00
	No. students reincorporated (in cycle)	-	-	-	-	-	-	-	-
	Average grade (approved)	89,39%	88,20%	92,47%	84,45%	91,02%	89,21%	89,61%	89,68%
	Evaluation of modules								
	Operation of virtual campus	4,24	4,51	4,38	-	4,40	4,29	4,51	4,50
	Support material	4,28	4,47	4,27	-	4,41	4,27	4,51	4,37
Technical material	4,30	4,47	3,98	-	4,27	4,37	4,36	4,28	
Administrative & IT support	4,23	4,53	3,23	-	4,47	4,05	4,29	4,56	
Academic support	4,44	4,33	4,11	-	4,55	4,47	4,59	4,55	
Others									

Table 2

Participants Countries	# Students 2005-2006	# Students 2006-2007	# Students 2007-2008	# Students 2008-2009	Total
Argentina	85	12	48	34	179
Barbados	0	0	0	20	20
Bolivia	19	0	185	126	330
Brazil	1	0	37	22	60
Chile	16	1	91	66	174
Colombia	17	166	75	157	415
Costa Rica	0	0	201	80	281
Dominican Republic	11	0	3	18	32
Ecuador	110	3	177	179	469
El Salvador	0	0	64	0	64
Guatemala	11	0	65	13	89
Honduras	0	0	41	0	41
Jamaica	0	0	7	6	13
Kenya	0	0	25	17	42
Mexico	7	0	84	53	144
Nicaragua	14	0	79	15	108
Panama	1	0	4	8	13
Paraguay	0	0	73	23	96
Peru	113	40	193	194	540
Portugal	0	0	0	1	1
Trinidad and Tobago	0	0	0	76	76
Uruguay	14	2	14	18	48
USA*	1	0	0	0	1
Venezuela	12	1	17	39	69
IDB	1	0	0	0	1
CIAT	0	16	5	5	26
Total Participants	433	241	1488	1170	3332

A quick analysis of the results that appear in the tables lead to the establishing the following conclusions based on the six aspects evaluated:

Operation of the Virtual Campus
Support material for the participant
Technical material
Administrative and IT support
Academic support: tutors
Others

- Course dropout percentage is very low if we take into account that one of the risks of distance education, generally speaking, is high desertion or drop out rates. In CIAT courses, in average, it does not reach 5%.

- Passing percentage is quite acceptable, because it reaches 90% considering that the academic burden and demand is high.
- The course evaluation in its 6 aspects is high, an average of 4.6 out of 5.00.
- One of the best-rated aspects is the academic support provided by the tutors or facilitators.

The table above shows by country the participation of tax officials in the virtual training activities scheduled by the Center. Ample participation is observed by officials from SUNAT of Peru (540), SRI of Ecuador (469), DIAN of Colombia (415), SIN of Bolivia (330), DGI of Costa Rica (281) and AFIP of Argentina (179).

iii. Obstacles

The Center counts with few human resources to execute the virtual program although their disposition and commitment to fulfill each task has made the good results obtained up to now possible.

Among the limitations or obstacles that may be mentioned, we must underscore the lack of personnel specialized in "e-learning", and the lack of timely IT support to develop, update and complement the Moodle platform.

The lack of specialization is specifically reflected in the matter of converting the material into texts with a greater pedagogic content. One of the options to overcome this inconvenience is to establish strategic alliances with TAs that count with these resources.

In what respects to the development of some Moodle functions necessary to manage the courses and improve the environment for the student, the training area has assumed its personnel's training so that they be the ones in charge, with support from the IT area, of carrying out adjustments and developments in the near future.

IV. FUTURE TRENDS AND TOPICS TO BE CONSIDERED

E-learning will surely become a priority alternative for TAs not only because it has shown to be efficient and efficacious but because in times of economic recession the search for different options that allow to meet institutional goals at a low cost, is a need of the organizations more than an alternative.

The degree of growth or expansion of any e-learning program using technological platforms must be determined by each organization depending on their needs and priorities. The decision of some TAs will surely be to

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transfer to e-learning some courses that are currently being given in person, if the subject matter and administrative and technical conditions allow it.

TAs that do not count with training under any e-learning modality may consider its use as an effective means to continue developing their training program and thus avoid the impact of budget cuts. In this case the recommendation is to be cautious and gradually design the modality implementation strategy, allowing for an optimum adjustment to this human resource system, at the student, tutor and administrator levels.

The combination of "e-learning" and in-person activities seem to be the best option for the organizations because they allow contact between students and between students and tutors and offer greater security and guarantee in key processes such as knowledge evaluations and in measuring concrete results.

Strategic alliances with local educational organizations, particularly of a governmental nature, may save time and money in the implementation or improvement of the organization's "e-learning" program. In the case of CIAT, the **Masters in Tax Administration and Treasury** (Maestría en Administración Fiscal y Hacienda Pública) program, developed through the Tax Studies Institute (Instituto de Estudios Fiscales), the State Tax Administration Agency (Agencia Estatal de Administración Fiscal), the Distance Learning for Economic and Technological Development Foundation Center (Fundación Centro de Educación a Distancia para el Desarrollo Económico y Tecnológico-CEDDET) and the National University for Distance Education of Spain (Universidad Nacional de Educación a Distancia de España-UNED), has shown to be key to successfully carry out, through 6 editions, a graduate course for officials from the Spanish-speaking TAs.

As part of these strategic alliances, CIAT, with the cooperation of the Brazilian tax administration and the tax administration school of Brazil will expand its courses program for Portuguese-speaking officials.

Likewise, next steps include the decentralization of the courses and technical assistance for the development of national modules in the essential topics listed: Tax policy and technique, tax law, tax administration and international taxation.

V. CONCLUSIONS

- HR management and, within the same, training benefits from the advantages technology may provide in terms of efficacy; however, to implement any "e-learning" strategy, the starting point must be the organization's Strategic Plan.
- Counting with top management's constant support to implement the "e-learning" strategy is essential in the project's success.
- The implementation strategy must consider the institution's training needs, and the available human, technological and financial resources.
- Tutors, students, pedagogic advisers and technical contents are crucial aspects in the success of the implementation and development of the "e-learning" modality.
- There are many and diverse alternatives available in the market to implement "e-learning". The decision on which could be the best one for the organization will depend on its specific needs, priorities and circumstances and the future perspectives the program has.
- For the selection of an IT platform, consideration must be given, among other aspects, to the fact that there are no established recipes, but rather the decision will depend on objective, subjective and situational aspects.
- It is advisable to gradually develop the implementation of the modality so as to allow the organization to adjust to the same.
- Although impact and return on investment evaluations are complex to materialize, it is important that they be seen as objective to be met in the medium and long term.
- The "e-learning" modality does not exclude the possibility of carrying out training activities under the in-person modality. On the contrary, these complement each other and may work in harmony and efficiently.
- Strategic alliances with other organizations may facilitate the implementation of one or several aspects related to "e-learning" contributing not only to guaranteeing the success of the project but also saving time and resources.

Case study

Topic 3.3

THE TECHNOLOGICAL TOOLS IN FINANCIAL AND BUDGETARY MANAGEMENT FOR TIMELY AND EFFECTIVE ACCOUNTABILITY

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SUMMARY: Abstract.- Introduction.- 1. Rules related to Agencies' financial and accounting management.- 1.1 Obligation to adopt the economic accounting.- 1.2 Agencies' self-management and responsibility.- 2. Agencies' financial management.- 2.1 Supporting technological tools.- 2.2 Start-up of procedures and systems.- 3. Publicity and transparency of the financial management.- 3.1 Publication of conventions and result verification documents.- 3.2 Publication of the year's balance sheet.- 3.3 Customer satisfaction surveys.- 3.4 Design of new accountability tools.- 4. Conclusions

ABSTRACT

This paper describes the technological and organizational decisions made by the Italian tax agencies regarding financial and budgetary management aimed at ensuring, among other objectives, the accountability and transparency of the tax administration vis-à-vis the taxpayers in the use of the allocated resources.

The paper starts with the regulation that reformed the Tax Administration and established four agencies as public entities with wide self-management powers. In particular, it points out how these rules contemplated the adoption of financial and budgetary management procedures typical of private companies.

The technological tools adopted to adjust the financial management procedures to the new organization provided by the regulation allow the Tax

Agencies to control the use of the resources assigned to each activity and verify their efficient allocation for the achievement of the objectives.

For the purposes of transparency and accountability to the citizens, the tax Administration informs the taxpayers on the purpose of resource allocation and related outcomes by means of diverse forms of publicity. Reference is made to the surveys conducted to measure taxpayer's degree of satisfaction in order to verify how fiscal services provided by the Agencies through available resources are perceived. Finally, the paper briefly introduces the design and implementation of new accountability tools in the Italian public administration.

The organizational framework of the economic and financial management put forward herein indicates that a greater control of resources allowed by the technological tools and the publicity of the activities and the results achieved by the Agencies enable the public to perceive the effort to improve and enhance the use of resources, while showing the financial Administration's progressive commitment to the citizens.

INTRODUCTION

The transparency in the use of financial resources by the Public Administration, that is, the possibility of knowing how public resources are utilized, constitutes one of the claims made by the citizens over the last years. As regards the financial administration specifically, it is considered important that the Administration should act not only effectively in guaranteeing the State's revenues, but also that the results be attained by best utilizing the available resources generated from the taxes paid by taxpayers. And ultimately, it is expected to allow the possibility of checking on the efficiency of the administrative management and the rational allocation of resources.

Such was the spirit behind the innovations introduced by the Italian Tax Administration in the last years from a legal and organizational perspective. More precisely, the creation of Agencies as public entities with wide self-management powers is targeted at delivering services efficiently and effectively, promoting "game rules" similar to those adopted by the companies competing in the market and methods and tools for managing transferred resources (human, financial and technological) similar to those used by companies.

To manage human and financial resources, the Agencies have adopted and apply modern technological tools, both for planning and accounting purposes. Such tools have allowed Agencies to manage the process and the destination

of the resources for each of the activities and verify the efficient allocation thereof, also facilitating the adoption of actions that allowed informing citizens on tax collection, other fiscal policy objectives and the resources allocated to achieve such results.

This paper presents the organizational and technological decisions that had to be made to adapt the financial management procedures to a type of management apt to assure an efficient use of resources and the transparency and accountability to the taxpayers.

To this aim, the presentation has been articulated around three main points. Firstly, it presents the rules that created the tax Agencies, assigning them an entrepreneurial-type financial and budgetary management, managerial autonomy and responsibility in the performance of fiscal policy objectives. Then, it describes the technological tools chosen by Agencies to manage the economic and financial aspects, underlining the election criteria and the areas of operation and development. Finally, the greater control of resources brought about by such tools resulted in some ways of publicity adopted by the Tax Administration to inform citizens on the purposes and the results of the use of the public resources. Also, reference is made to taxpayer's satisfaction surveys conducted to understand and interpret the perception of citizens and companies of fiscal service quality. Finally, reference will be made to the dissemination in the Italian public administration of the implementation of new accountability instruments that are easier to use by the citizens. Some final considerations regarding the achieved results follow.

The paper is intended to present the organizational frame of the economic and financial management introduced by the reform, underlining its critical transitions and the results attained, also in terms of providing more effective information to taxpayers and a greater consideration of their expectations.

1. RULES RELATED TO AGENCIES' FINANCIAL AND ACCOUNTING MANAGEMENT

The reform carried out by the Italian Financial Administration under the "agency administration" model brought about an important change in the organization, particularly in the procedures for managing financial resources, both as a result of incorporating an accounting similar to that used by private companies, subject to economic accounting principles, and the fact that the economic and financial management constitutes the core of the management autonomy conferred upon the Agencies.

1.1 Obligation to Adopt the Economic Accounting

The new organizational structure incorporated by the reform of the Italian financial Administration (Act N° 300 of July 30 of 1999, Sections 57-70) marked the transition from an organization based on expense and accounting processes typical of public accounting, to a self-governed and flexible structure based on accounting principles regulated by economic accounting rules.

To such aim new procedural tools are contemplated to pass from a financial administration based on Public Budget's sections - which in practice complicated the control of the destination of financial resources- to a system of resources defined by the rule and administered through an entrepreneurial-type accounting¹. In addition, under their recognized self-management, Tax Agencies can obtain other resources from the provision of services to public and/or private entities in addition to their institutional activities, by offering their own professional and technological competencies.

In furtherance of the cited rules, an innovative set of provisions has been introduced relative to the recording of accountable and management facts contained in the accounting regulations adopted by the Agencies. Such provisions allowed the passage from an accounting system used by the whole State Administration to a system taken from the private sector.

The accounting regulation, mainly inspired by entrepreneurial accounting, constitutes the benchmark instrument of the Agencies' administrative and sourcing activities, and regulates, among others:

- the budget (or program document), an instrument used for planning and authorizing expenses and monitoring results, which represents a highly innovative element that allows tying the demands of expense planning to the requirements of management flexibility, effectiveness and efficiency;
- the accounting system, as the basic structure to record the economic, financial and property aspects of the Body's actions;
- the year's balance sheet, drafted in conformity with the economic principles;
- the articulation of the year's balance sheet with the State accounting, which must be obligatorily explained in the supplementary note (document that integrates the year's balance sheet).

¹ Section 70 of Act 300/99 provides that the resources of Tax Agencies should be composed of:

- the funding allocated in the State's Budget;
- the payments for services provided to public or private entities, including the State administration of deliverables that are not part of institutional services;
- other property and management gains.

The articulation of the year's balance sheet with the State accounting constitutes the mechanism that, given the public function executed by the Agencies, allows keeping at sight the transferred financial resources and following up their utilization. In effect, the Agencies' accounting management, despite adopting the rules provided for private companies, respects the "general provisions related to public accounting, which include the drafting of specific notes of entrepreneurial accounting" (section 70, paragraph 5 of Act 300/99). Furthermore, the executed Balance Sheet that documents the economic management ex post facto is subject to the Minister's approval. Essentially, the rules require that the relation between the transferred public resources and the Agencies' financial management be maintained and documented, and that this situation be verified from time to time.

1.2 Agencies' Self-Management and Responsibility

The new regulation is completed by the great self-management powers conferred upon the agencies. In effect, section 61 of Act 300/99 defines tax Agencies as "public bodies provided with regulatory, administrative, property, organizational, accountable and financial autonomy".

This provision allowed Agencies to independently chose, once the achievable objectives were agreed within the limits of the allocated resources under the Convention², the manner in which the operating objectives (production budget) and the amount of necessary resources (economic budget) would be allocated to their organizational structures.

As a result of the self-management, Agencies are responsible for the achievement of the fiscal policy objectives set by the Ministry of Economy and Finance³, which has verification and control faculties over them.

Specifically, the Ministry exercises a surveillance function over the acts of the Agencies, and a control function over the resolutions concerning bylaws, regulations and overall acts identified in the Convention, which regulate their functions.

² Section 59 of Act 300/99 provides that the Ministry of Economy and Finance can independently fix the objectives of fiscal policy and tax management. Based on the political guidelines, the Ministry and the Agency establish a triennial Convention, revised annually, which sets the corresponding services and achievable objectives, the available resources, the indicators and metrics to measure management results and evolution.

³ The reform of the Financial Administration separated the political management function maintained by the Ministry of Economy and Finance from the technical-operating management of tax collection and relationship with taxpayers carried out by tax agencies. The relationship with Agencies is maintained through the Finance Department of the Ministry which, based on the Minister's instructions, controls the planning of Agencies' objectives and the ulterior verification of achieved results.

The management and control role exercised by the Ministry over the Agencies constitutes a first guaranty to the citizens regarding the efficient use of the resources allocated to the financial Administration, and is intended to assess the deliverables and services provided to taxpayers and the global functioning of Agencies with relation to the transferred resources.

2. AGENCIES' FINANCIAL MANAGEMENT

The implementation of the financial economic management described in the preceding paragraph required the start-up of new operating procedures intended to:

- quantify the necessary resources with relation to the activities;
- control their use, enhancing the relation between resources and results;
- intervene timely to correct possible deviations from pre-established cost goals;
- simulate the effects of future decisions;
- control the progress status of assigned objectives.

Essentially, the implantation of a planning and control system of financial and budgetary resources was required, supported by adequate IT tools intended to collect and process the necessary information for management purposes, as well as to extrapolate useful elements for making managerial decisions.

The obligation of Agencies to carry the economic accounting and maintain the management autonomy required the development of IT systems allowing collection of all the necessary information to write up executed Balance Sheets and the documents that would be subjected to the Ministry's control. Such instruments, in turn, would allow the Agencies to control and assess the management's economic evolution to verify its accuracy and efficiency.

2.1 Supporting Technological Tools

The above described IT requirements called for supporting systems apt to meet different needs.

Firstly, the systems had to administer the information relating to accounting (staff, purchases, treasury), should be integrated to manage cost-related data uniformly. Such systems should allow the processing and conservation of all accounting documents required by the law, as well as the drafting of the year's balance sheet. Lastly, they should allow the preparation of the documents for articulation with the State's accounting.

Secondly, such systems should be inserted in the architecture suite of management systems, integrated to them and allowed the control of all corporate processes. Especially, they should produce the necessary documentation to:

- formulate the integral budget (assignment of production and cost objectives);
- have available an economic and production information system apt for the requirements of information from the diverse levels of responsibility, in order to verify the degree of progress of activities and the allocation of resources for the accomplishment of preset objectives.

In addition to having the above described features, the tools to be adopted should allow the rapid implementation of all management systems.

The decision went towards an application already known in the market, apt to monitor the operating environments of small and medium-sized companies, which would meet the requirements of integrality and flexibility and the supplier of which would guarantee ongoing enhancement and renewal thereof.

The solution adopted was an evolved integral system called Enterprise Resource Planning that runs over ORACLE platform. It consists of a set of modular applications dedicated to providing support to the different aspects of management: from overall accounting to purchases, sales, human resource management, control of the progress status of objectives, etc. Each module allows generating its own report on the data managed by it.

The set of applications used by the Agencies is part of a suite called "e-Business Suite"⁴, version 1.1.i. An "accounting engine" is used for the overall accounting, which obtains and integrates the information from the modules that manage the accounting of suppliers, purchases, assets and clients. The attainment of accounting data through these systems allows drafting the year's Balance Sheet and all related documents that must be subject to the Minister's approval.

Specifically, the operating environments are:

- **The purchase cycle:** for purchase management, it is intended to control and manage all aspects of expense and draws on the reality of private companies;

⁴ The "E-business suite" is Oracle's application package for automated management of the entire corporate processes.

- **The accounting system:** based on the rules of the Civil Code regarding corporate accounting, it allows the identification of administrative facts and is intended to prepare the year's balance sheet and, therefore, assess the economic and net worth results. In the IT system adopted by the Agency, the accounting module represents the core of management system's architecture.
- **The treasury system:** it allows mainly to manage payments and collection from the phase of provision/registration, to the reconciliation between internal accounting entries and the depositary bank's entries. It is also composed of the "decentralized cash fund" tool which, through the fund allocations (of small amounts) requested by local offices, allows a more agile management of minor expenses.
- **The asset module:** it is fed through the purchase cycle and is intended for the accounting management of the company's property, allowing for an interphase with the accounting system.
- **The active cycle:** for the issue of invoices for services other than institutional ones, which the Agency may offer to public and private entities.

Finally, the HR module allows managing staff with respect both to staff condition (years of service, branch, etc.) and attendance/absenteeism.

The above described applications also guarantee the integral coherence and the security of the information. In fact, operators access with a personal password and each modification made to the existing information in the files is subject to a strict system of authorizations and validations. The visualization of data is customized as per the body and the person accessing the system.

Currently, the activated modules for management control are pending delivery, which are structured as per each Agency and have modalities that correspond to the respective organizations and allow analyzing, integrating and processing accountable and production information. Especially, the system allows:

- the preparation of the economic and production budget, both for its execution and the partial revisions during the year;
- the information on economic and production data for the purposes of internal control and monitoring;
- the analytical Accounting management, in order to know the costs incurred in a certain period, broken down by Responsibility Center, activity, Product and Project;

- for the Customs Agency (and especially for the sector of Chemical Laboratories)⁵ industrial Accounting is being developed for the cost analysis of fee-paying activities, in order to allow managing them separately from institutional activities.

The functioning of the system described above will be able to manage all corporate needs of the Agency.

2.2 Start-up of Procedures and Systems

The decision to adopt this product required adapting the functions of a system conceived to operate in the private environment to the particularities of large public offices, such as tax agencies.

However, customization interventions were limited, keeping the original features of applications, the modifications of which are the responsibility of ORACLE, so as to assure the system's integrity.

Alternatively, the opportunity offered by the new accounting obligations established by the rule was taken advantage of, proceeding with the reengineering of financial management processes. The organizational procedures have been adapted to the new instruments, so as to avoid the common error committed in automating the Public Administration: introducing advanced IT solutions in obsolete and inefficient operating modalities.

The new operating modalities and the requirement to respect the terms provided by the rule required the rapid training of the staff, which had accounting experience in the public sector. The implementation of the accounting systems was accompanied by training, so that the entire system would function coordinately and the year's first balance sheet could be presented to the Minister for approval within the established terms.

The courses were targeted at managers, who would use the information available through these tools for management-related decision making. Special emphasis was given to the advantages and responsibilities deriving from the possibility to administer the allocated resources autonomously.

The operating staff that would use the systems were specially trained in the new accounting procedures, focusing on the differences between the new economic-type management, based on the competency of the expenses incurred, and the previous system based on financial flows.

⁵ The "Chemical Laboratories" are part of the Agency's structure, which, in addition to the institutional activities of merchandise analysis for traffic control, conduct analyses upon request of third parties, for a fee.

3. PUBLICITY AND TRANSPARENCY OF THE FINANCIAL MANAGEMENT

The financial management whose modalities and tools have been previously described is part, as we saw in the first point, of the Agencies' self-management frame. These can value and optimize adequately the available resources by achieving the objectives agreed with the Ministry. The evaluation of the Agencies' actions will be based on the obtained results and not on the formal verification of each management action. Therefore, Agencies implement the decisions they deem more convenient basing them on rationalization and flexibility criteria of the utilized resources. The ultimate goal, as it has been restated several times here, is to achieve an efficient provision of services with a view to meeting the citizens' demands.

However, the responsibility before taxpayers requires that the application of this self-management should be visible as to the objectives and the allocated resources for their accomplishment. It is necessary, then, that the use of resources should be possible and that there should be assurance that they are targeted at the performance of public aims, not only from the point of view of the compliance with the rule but also in terms of the effectiveness of the administrative action, that is, the accomplishment of results.

Over the last years, the financial Administration adopted some initiatives based on the improvement of the set of relationships with citizens, both in terms of transparency and information on the management of administrative activities, and the survey of taxpayers' expectations.

3.1 Publication of Conventions and Result Verification Documents

A first form of transparency before the citizens is the publication of the Conventions held with the Agencies on the Tax Administration's webpage. These documents indicate what activities will be developed and what results should be achieved from the transfer of financial resources; as well as the modalities for defining and transferring the financial resources allocated in the public budget, allowing to know the "cost" of the services provided by the Agencies. Finally, the Conventions also contain the plans for innovation projects intended to improve the Agency's set of deliverables, also financed with the cited resources.

The possibility of knowing the relationship between the transferred resources and the achievable objectives is even more evident in the document that regulates the relations between the Ministry and the State Property Agency,

which manages the State's real property. Considering the Agency's particular juridical nature⁶ the relationships, the services provided and the corresponding payments are regulated through a "services agreement" that indicates the Ministry's financial consideration provided to each of the rendered services.

Also, the result verification reports have been published recently, which document the degree of compliance with the goals established for each year within the three-year term contemplated in the Convention. Specifically, the summary documents contain the economic and financial data of each Agency in graphical and comprehensible fashion, with regard to the achieved results, and also show the management's historical evolution.

The data required to draft such reports derive from the management reports of Agencies which, in order to process such information, use the management systems that have just been described.

The citizen is then able to know and analyze the evolution of the Agencies' total performance and check the results achieved in terms of efficiency and effectiveness of the administrative acts.

3.2 Publication of the Year's Balance Sheet

Over the last years, the Revenue and State Property Agencies also published on their website the years' balance sheet, the report on management and the activities and the supplementary note, the drafting of which is possible thanks to the accounting management applications used by the Agencies, as explained in the second point.

The publication is made after the approval of the final document by the Minister. Such approval represents the verification of the agency's financial and economic management established by the law to assess the agency's lawfulness, transparency and truthfulness. The publicity is a form of control exercised by the citizens over the Agency's acts.

The Balance Sheets contains detailed information on the activities conducted during the year; it allows, through the analysis of economic data, having a specific knowledge of the Agency's financial and economic position and, therefore, the use of financial resources allocated to its functioning; especially if they are related to the performed activities and obtained results. The year's

⁶ *The Act 173/03 modified the Act 300/99 and transformed the Agency of State Property in an Economic Public Body: a self-managed juridical entity of the Public Administration that applies organizational modalities and operating tools typical of the private sector, to achieve its objectives.*

Balance Sheet also documents the efficiency of the financial management on checking whether the Agency is optimizing the use of the available resources without incurring debt, as it is set forth in the regulation.

3.3 Customer Satisfaction Surveys

Accountability is also supported by the periodical verification of the agreement between the services provided by the Administration and the citizens' expectations.

To such end, several years ago the Department of Finance of the Ministry of Economy and Finance, which holds coordination functions in cooperation with the Tax Agencies, started up different actions intended to listen to taxpayers and thus improve the relationships between the citizens and the Tax Administration.

The objective is to understand and interpret the way citizens and companies perceive tax services. Paying attention to the opinion of one's own "clients" is a way of communication that helps bring the administrative action closer to the requirements of citizens and companies in terms of work efficiency and quality.

The surveys were conducted with regard to each of the services offered by the financial departments and the fiscal system as a whole. Particularly, the Department of Finance has carried out surveys to learn how taxpayers and tax sector professionals perceive the tax system. The results of the surveys were published in the section devoted to the quality of fiscal services on the Financial Administration's website.

On the other hand, the surveys conducted by the tax Agencies focused on some of their services and the categories at which such services were targeted. Also in this case the surveys as well as the utilized criteria and the achieved results were published in the respective websites.

The result of the surveys allowed to obtain useful information to start up programs intended to improve the work and the organization.

3.4 Design of New Accountability Tools

As part of the modernization underway in the Italian public administration, initiatives were also undertaken for increasing transparency and informing citizens about the actions carried out and achievements resulting from the public resources used. In particular, the design and test of some accountability tools and techniques are being disseminated. They allow the citizens to easily become aware of the objectives, action strategies and results achieved.

In fact, citizens might be unable to fully determine the efficiency and effectiveness of the administrative action merely through the regular means of institutional communications such as, for example, the published documents which we briefly illustrated in the preceding paragraphs. Therefore, many administrations have developed communication tools that clearly describe the mission of public administration, the objectives pursued, the resources available and achievements made.

Only recently have efforts being devoted in this regard, by issuing guidelines for standardizing the different tools being designed. In particular, one tool has been developed which renders accessible, transparent and assessable the performance of public administrations by the citizens; namely: the "Social balance". It is a document that is periodically drafted and allows for translating the figures of the traditional accounting balances into illustrations to public and private stakeholders of the decisions made by the administration, the activities, the services rendered, indicating which and how many resources have been used and which were the decision-making processes.

Likewise, the tax Administration has taken measures for developing an appropriate "Social balance". The document should provide the global framework for the tax system's social accountability, by integrating the information obtained from the Administration's management systems (Department of Finance and Agencies). The purpose is to specifically and easily make the taxpayers aware of the activities carried out and the resources used.

The document is still in the planning stage and up till now there have been no practical applications. Nevertheless, it may be considered an evidence of the tax Administration's awareness of the need to establish an open relationship with the taxpayer, well beyond communications for the sole purpose of ensuring compliance with tax obligations.

4. CONCLUSIONS

We have analyzed, both from the regulation and the organizational perspectives, the innovations introduced by the reform made by the Tax Administration to the financial and budgetary management. The management flexibility and autonomy allowed the Agencies to contribute to the process of modernization of the fiscal system, gaining an increasing proficiency on the efficient use of the available resources.

As it has been seen, the transition from a structure that functioned under formal rules and bureaucratic procedures to another that operates according to corporate values and instruments has not been without difficulty, either in

terms of the organization of the new procedures or the implementation of the supporting technological tools.

Nevertheless, after several years of self-management, the documents produced by the Agencies for the verification of results and management evolution seem to indicate that the new management culture is consolidated. This is shown by the ongoing development and evolution process that characterizes the management supporting systems documented in the result verification reports, even from an economic point of view.

This is most true of the systems that analyze and process the information required for making corporate decisions. The search for ever sophisticated solutions and the adoption of state-of-the-art tools demonstrate that Agencies are aware that the knowledge of the management facts is an indispensable condition to recover efficiency, and that it can be key to obtaining the results expected by taxpayers in exchange for paid taxes, and which the Administration tries to capture by studying the service quality from the point of view of taxpayers' perception and expectations.

This is the objective pursued in the publicity of the activities and the results accomplished by the Agencies in the current trend towards a transparent internal management, and which lies behind the objectives sought. The research and development of new communication tools attest to the interest of making citizens aware of the activities carried out by the Administration. Most of all, this objective assures the visibility of the efforts to improve the management and optimize resources, while showing the Tax Administration's progressive commitment to the citizens.

Case study

Topic 3.3

THE TECHNOLOGICAL TOOLS IN THE FINANCIAL AND BUDGET MANAGEMENT, FOR TIMELY AND EFFECTIVE ACCOUNTABILITY

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*SUMARIO: I. Importance of financial and budget management for accountability.-
II. Elements comprising accountability and information technologies for
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2.3 Basic attributes of a Tax Administration that is accountable for its
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management in the tax administration superintendence.- VI. Final thoughts*

I. IMPORTANCE OF FINANCIAL AND BUDGET MANAGEMENT FOR ACCOUNTABILITY

*"The budget goes beyond the mere accounting formulation
to become the meeting point of the forces of society."
Martin 2005.*

Today more than ever the population plays an active role in public management. This role has been fostered by basic unmet needs; the deepening of the democratic system in Latin America, which allows citizens to exercise their basic rights; and the development of information technologies that facilitate the government-society interaction, even in real time.

Different studies have shown the importance of a good public administration to strengthen governance and even to improve economic performance. As part of this, it is believed that a good government constantly informs and listens to the population; however, the government's success in implementing the aforementioned functions will depend on many things, including transparency and the status of art development, including information technology. In addition, other studies have shown that a perception of good governance influences tax compliance in a positive fashion.

It is in this framework that the government-society relations are conducted. Therefore, it is in this setting that public management and, specifically, financial and budget management take place, going from cost-centered activities to result controls and accountability before the country's population.

Following this pattern, tax administrations in the world today face the challenge of adopting management approaches geared toward attaining results, as some administrations in developed countries have already done. This is the case for Australia, whose model shows that given the heterogeneity of taxpayers, the aggregation of public value implies managing compliance, interventions, accountability, use of resources, and a different form of accountability. In this process, the progress made in terms of information technology, such as e-mail, the Internet, etc., is very useful in communicating with the public in general and taxpayers in particular.

The opportunity to introduce innovations in the management of tax administrations continues to be broad. However, it is indispensable to advance in defining policies and strategies to file one's reports in an effective manner, especially in keeping with the financial resources used, performance indicators, impact evaluations, and specific results obtained.

II. ELEMENTS COMPRISING ACCOUNTABILITY AND INFORMATION TECHNOLOGIES FOR BUDGET AND FINANCIAL MANAGEMENT

2.1. Some Technical Specifications of Management

The evolution of budget techniques shows that now, more than ever, comprehensive approaches are needed to align used resources with the results obtained. In certain models used in the past, such as zero-based budgeting, activity budgeting or by-item budgeting, emphasis was placed on activities and items. Nonetheless, greater importance was placed on the control tool than on the management of resources and on satisfying users. In the meantime, result management budgeting provides a significant weigh on the results obtained from the use of available financial resources.

In order to effectively compare its components, it is appropriate to remember the definitions of results-oriented budgeting and traditional budgeting.

Results-based Budgeting

Methodology that presents elements that are far better than program-based budgeting and complement the latter. As part of its chief characteristics, this methodology involves clearly identifying input-output relations in the budgeting process and defining policies as the framework to define public production. This methodology underlines the development of impacts and results indicators and establishing causal relationships between results and the amount and quality of the goods and services to be produced by public entities.

Traditional Budgeting

Budgeting system that showed the allocation of resources at the institution level and the expense item, without specifying the goods and services obtained from said resources. This methodology was geared toward the items the government bought and not the things it produced.

In the implementation of results-based budgeting, the use of information technology is indispensable not as a goal in itself but as a part of the set of tools to facilitate elements in budget management. These elements are valuable in terms of both the management and alignment of expected results, political aspects, and of course the resources used to meet the needs of country residents, as depicted in the following diagram.

Resources / Inputs → Activities → Products → Results → Impacts

In this regard, accountability plays an important role as it becomes a challenge whereby government authorities subject themselves to the scrutiny by the population of the results they have attained in each government agency. To this effect, information technologies are an important support tool and one that will strengthen institutional transparency.

2.2 Accountability for Budget and Financial Management

Accountability involves an obligation of public officials to present to the population, information on what goods and services were produced with the resources allocated to carry out programs and projects. This accountability entails the public sector's compliance in its economic-financial activity to the principle of legality, principles of efficacy, and efficiency in the execution of public spending. Accountability also involves the presentation, for its review and verification, of a detailed and well-founded description of earnings and expenses of an administration or management.

TOPIC 3.3 (Guatemala)

All public servants have an obligation to be accountable for their actions and management in a clear and timely manner, especially those in charge of the execution of budget programs or managing or guarding state resources, goods, funds or valuables, or resources from decentralized and autonomous entities.

In order to adequately present one's filings on the basis of results-based budgeting, it is important to clearly identify the public resources use process in obtaining the expected products. To that end, it is appropriate that we delve deeper into the following central topics:

- i. Identifying priority results;
- ii. Establishing a logical connection between the results, products, and services they provide; and,
- iii. Defining the quality standards that said products or results must meet in order to satisfy the needs of the target population. These quality standards include the definition of performance indicators.
- iv. Evaluating the results
- v. Feedback

It is important to take into consideration that the orientation of public management toward results does not entail that we will be neglecting inputs, processes, and related products, because problems in public management are present throughout the chain of supply of goods and services. Consequently, it is indispensable that this chain has been defined appropriately in order to attain specific expected results.

In addition and in order to strengthen the accountability process, data provided by government agencies in their transparency processes in management, must respond to the following elements:

- i. The center of public activity must be citizens;
- ii. Public management must allow citizens to identify the official responsible for providing goods and services; and
- iii. The information supplied from the monitoring and evaluation of results, must be tied to the decisions made by the state and must be shared with civil society.

2.3 Basic Attributes of a Tax Administration that is Accountable for its Management

One of the basic aspects of the work of tax administrations, is that most of the information available has been delivered under the condition of confidentiality, so the actions of the tax administration are based on taxpayers' confidence that their cases will be handled with due secrecy. Furthermore,

taxpayers trust that the physical, financial, and human resources the tax administration has, will be handled in an effective manner, so they can result in improvements in systems and procedures. The latter will ultimately facilitate voluntary compliance and will reduce the cost related to the aforementioned process.

Some of the pieces of evidence that tax administrations are making progress in this process are: retaining and training qualified staff to carry out the aforementioned tasks; the permanent process of training of officials so they stay fully abreast of the evolution of world techniques; the renovation of available taxpayer service systems; and the establishment of self-sustainable innovation procedures.

In addition and to promote institutionalism, the tax administration requires the following, among other things, to operate effectively: a coherent legislation; the existence of an adequate level of tax awareness, a good system of administrative, financial, and budget management processes, and the existence of a management policy based on the philosophy of service to taxpayers.

In general, all of the aforementioned aspects imply:

- Objective enforcement of the law and procedures.
- Full respect for citizens' rights.
- Promotion of service quality institutional culture.
- Implementation of a policy of transparency and accountability.
- Use of mechanisms to limit and detect acts of corruption and arbitrary actions.

2.4 Transparency and Advertising

An adequate accountability is directly tied with transparency and advertising the actions carried out by the tax administration. However, in order to attain transparency and advertise its actions a tax administration must also be effective, efficient, and agile. It must be imbued with ethical and moral values, allowing each administration employee to give his or her best for the country, society, their families, and their own sake.

To that effect, all processes that are carried out must be based on intense communications between the people and their leaders, as well as on the existence of a culture of integrity and clarity regarding all processes involving the administration.

In this regard, the Advertising Budget Principle establishes that the budget must be made public and that budget management information must be

disseminated in the framework of the concept of accountability of the population. This principle must never be construed as the mere fact of publishing the approved income and expense budget and subsequently publishing the result of budget execution at the end of the budget year. Rather, it must be viewed as the process of advertising all budget stages, going from its formulation to execution, control, and evaluation, as well as its final liquidation.

When the budget is managed with due transparency and advertising, the ultimate accountability process is not as important as when it is not managed and advertised in a transparent fashion.

III. TECHNOLOGICAL TOOLS

Independent of the methodology is use in the financial and budget management of the state, at present most countries use technological tools to have one single system in place, called Government Control and Financial Management Integrated System. It has been conceived as a macrosystem comprised by the "Financial Administration Integrated System" and the "Government Auditing System," in which the Financial Administration Integrated System is comprised by the subsystems of Public Budget, Government Accounting, National Treasury, Public Credit, and Procurement. In spite of the fact it does not specifically include the Tax Revenues Collection System, it must be capable of communicating with it via information technology means.

Said macrosystem is intended to provide useful, timely, and appropriate financial information to make decisions, as well as to facilitate the control process and accountability, under the principles of normative centralization and an operating decentralization in the state's financial management. It follows standards of effectiveness, efficiency, and economy, in order to help public administration serve society and hold public servants and officials accountable for their actions.

As a complement to said macrosystem, some modules or systems that tie the management of real resources with financial resources have been developed, such as:

Procurement Management System: it integrates electronically the issue process in managing requests for goods, supplies, and services, with the purchase order and the budget execution.

Debt Management and Administration System: conceived for a better management of the public debt, both bilateral and multilateral debt of countries, by systematizing debt information, to include amounts, interest

rates and commitment, inspection, and oversight commissions, disbursements, maturities, payments, and others. It allows the administration to make estimates, scaling, and tailored reporting.

State Procurement and Contracting Information System: Consists of electronic markets operated via Internet. Through these markets, state agencies purchase goods and contract the services they require, achieving a good management with transparency, free participation of possible bidders, savings in processes, efficiency, promotion of development, and regional integration.

IV. THE CASE OF GUATEMALA

4.1 Results-Based Program Budgeting

In many countries the debate continues as to what is the best methodology for the public budget, although in most Latin American countries with the development of financial and control management integrated systems, the use of the results-based budgeting methodology has been encouraged.

In the case of Guatemala that discussion has been exhausted, because Article 237 of the Political Constitution of the Republic establishes that the budget structure is program-based. This implies the use of the "Program-based Budgeting" methodology, based on the conceptual trilogy Planning, Programming, and Budgeting. This methodology defines the budget as a programming and management control instrument, stated in institutional programs whose final or intermediate products (goods or services) contribute to complying with higher-level plans or programs, and rationalizes on the allocation of public resources, through an annual accomplishments plan.

Without ignoring the aforementioned constitutional provision, in Guatemala Results-oriented Programming Budgeting is applied, in the sense that:

- Program budgeting clearly expresses the input-output relationship and the policies to define production.
- It highlights the methodological development of impact or result indicators and the establishment of causal relations among inputs, processes, and the amount and quality of the results to be produced.
- The budget is interrelated with other developments of the management of real resources, specially planning and human resources.
- Management is geared toward attaining results and performance; it is based on the clarity of the proposals, the authority to carry out the taskings, and the responsibility to exercise said authority.

4.2 Accountability

The Political Constitution of the Republic of Guatemala also establishes in Article 241 that state agencies, decentralized, or autonomous entities will present on an annual basis to the Congress of the Republic their progress report, through the annual budget liquidation that is submitted to the Comptroller General's Office in the first three months of each year.

In the meantime, the Comptroller General's Office will present and issue a report in a term not to exceed two months, which it will forward to Congress, who will ultimately approve or disapprove the budget liquidation for each agency. In the event the budget liquidation may be disapproved, Congress must call for the corresponding report or explanation and if it were for criminal reasons, the Attorney General's Office will be duly informed.

In addition, the Basic Budget Law stipulates in Article 4 that every public servant that handles state funds or valuables, as well as those exercising management or leading functions, must present a report on their work at least once a year to their immediate supervisor. This is done to ensure compliance with the objectives set out for the public funds officials were entrusted with, and for manner and results of their utilization.

The foregoing implies that accountability basically responds to two situations:

- A report on one's work must be presented as regards compliance with legal and procedural requirements to receive public funds and to make payments for goods and services received.
- A report on one's work must be presented as regards compliance with the objectives set out for the use of public resources officials were entrusted with, and for the manner and results of their utilization, that is, for attaining execution goals and meeting outlined objectives.

In addition to the foregoing paragraphs, on September 23, 2008, Congress approved Decree Number 57-2008, which contains the Law on Access to Public Information. This piece of legislation is aimed at ensuring that each interested person has the right to request and have access to public information in the hands of the public administration for its actions, as well as for ensuring transparency in the public administration's management. It is based on the principles of maximum advertising, transparency in managing and executing public resources, free access to information, simple procedures and expediency in the process of requesting information. This legislation will enter into force on April 23, 2009.

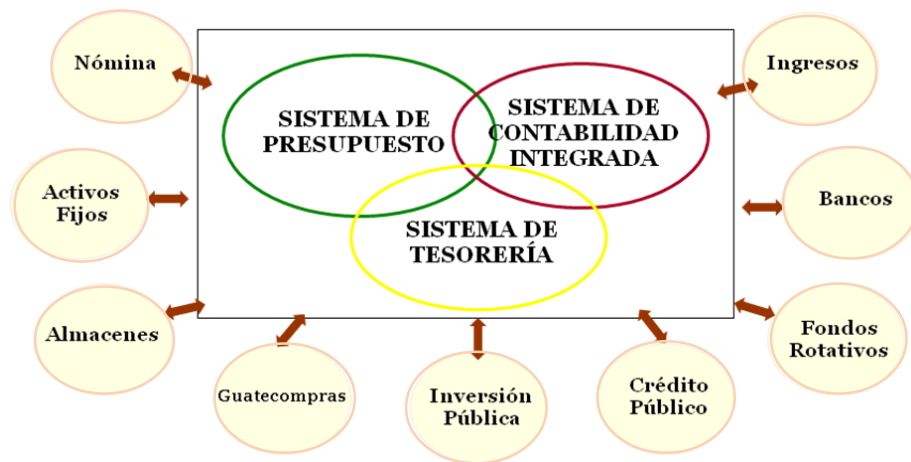
4.3 Technological Tools for Financial and Budget Management of The Government of Guatemala

The reform of the financial administration in Guatemala took shape in Government Ruling 217-95 dated May 17, 1995, whereby the "Integrated System of Financial Administration and Control (SIAF-SAG)" was established. It is comprised by the subsystems of budgeting, accounting, treasury, public credit, procurement, and auditing, to be implemented in all Nonfinancial Public Sector agencies.

In this manner the SIAF is conceived as a set of entities, organizations, laws, regulations, handbooks, procedures, guidelines, human, material, and technological resources, the objective of which is to develop the budget and financial management of the nonfinancial public sector.

Table No.1

COMPONENTS OF THE FINANCIAL AND CONTROL MANAGEMENT SYSTEM (SIAF-SAG) OF GUATEMALA



Source: State Accounting Directorate, MFP

The SIAF forms part of a long-term state reform strategy. Although it is implemented generally in the Public Sector, it has been put into operation in continuing stages, beginning in the initial stage with central government entities (Ministries and Secretary's Offices). Later in the second stage, it was implemented in decentralized, autonomous entities, and public companies, and in its third stage it was implemented in local government or municipalities.

TOPIC 3.3 (Guatemala)

As of this writing the SIAF has been implemented all across the Central Government, as well as in 31 decentralized, autonomous entities and public offices, including Congress, the Judicial Branch, and the Guatemalan Social Security Institute (IGSS). Since it has been implemented in all Ministries, Secretary's Offices, Presidency Offices, and Social Funds, consisting of 192 executing units combined, the work of the government under the principle of operating decentralization at the Ministries and governing centralization at the Ministry of Public Finances as governing agency of the Financial Administration has been strengthened.

The system works online and in real time, during all stages of the budgeting process. Furthermore, it has permeated down to the most basic level of implementation, that is, it records all spending phases from the time the transaction originates.

Regarding its computer platform, the Guatemalan Government's budget and financial management, as well as the accountability process, rest on a three-pronged system, each one covering a specific area of action, although they complement one another: The Integrated Accounting System (SICOIN), the Procurement Management System or Computer Management System (SIGES), and the State Procurement and Contracting Information System (GUATECOMPRAS):

Table No.1

**TECHNOLOGICAL TOOLS USED BY THE
GOVERNMENT OF GUATEMALA TO MANAGE ITS FINANCES AND
BUDGET AND TO PRESENT PROGRESS REPORTS.**



Source: State Accounting Directorate, MFP

A. INTEGRATED ACCOUNTING SYSTEM (SICOIN)

As part of the SIAF-SAG, a technological tool called "Integrated Accounting System" (SICOIN) was developed. This was one of the most successful projects in the area and in 1998 won an award as the Best World Bank's Project for that year.

The Integrated Accounting System (SICOIN) is an accounting information system, which resides in the State Accounting and consists of the budgeting, accounting, and treasury subsystems, so it records each transaction only one time.

This tool was originally designed as part of the client/server technology, but currently technical advancements have enabled authorities to place it on Web level, thereby facilitating financial management. In addition, in order to strengthen accountability and transparency, this tool is available to the public who can check it free of charge. In addition, the Comptroller General's Office is linked up with SICOIN, which facilitates online oversight allowing authorities to learn about transactions at the time they are made.

B. PROCUREMENT MANAGEMENT SYSTEM OR COMPUTER MANAGEMENT SYSTEM (SIGES)

This system was developed by the Ministry of Public Finance and it includes -- electronically -- from the process of issue of the purchase order to budget execution. It runs management processes for procurement orders, and it interacts with the Guatecompras portal. Said system was implemented by the Central Government in the year 2006.

C. STATE PROCUREMENT AND CONTRACTING INFORMATION SYSTEM (GUATECOMPRAS):

The State Procurement and Contracting Information System (**Guatecompras**) is an electronic market, run through the Internet, whereby Guatemala State agencies make their purchases of goods and hiring of services obligatorily.

The objectives that are attained with good management at **Guatecompras** are transparency, efficiency, promotion of development, regional integration.

The benefits of **Guatecompras** are as follows:

- **The public sector:** It may now have: a) Standardized working procedures as the information will be available electronically and in equal times and formats; b) Agility and transparency in procurement processes, electronic verification is faster and is available to those who may require it at all times; c) Expeditious control and follow-up mechanisms regarding

procurement; d) Larger number of suppliers since the procedure becomes easier and less costly; e) Better price and quality conditions in proposals from enterprises as travel and moving expenses do not impact on their offerings; and, f) Significant savings in resources by reducing waste and negotiating the best prices, without detriment to quality and in accordance with the needs of the administration.

- **Companies:** They may now have: a) Greater possibilities of participating in public procurement; b) Faster and easier mechanisms to obtain information and provide follow up to government procurement processes; c) Savings in the cost of requirements list for biddings; and, d) Broader access to enterprises, which previously faced restrictions resulting from bidding processes requirements.
- **Society:** It may now have: a) Transparent accountability mechanisms for government procurement processes, as it will now enjoy at all times and from any location, access to all the information; and, b) Any citizen may learn such details as how much does the government spend on goods, services, leasing, and public projects; what entities and agencies are carrying out procurement processes; under what procedures is the procurement process carried out; what companies take part in biddings and tenders and who are the winners; and if a motion was filed against a specific procurement process or if any supplier or contractor has been penalized.

V. FINANCIAL AND BUDGET MANAGEMENT IN THE TAX SUPERINTENDENCE ADMINISTRATION

5.1 Legal Basis

As a result of the functional, economic, financial, technical, and administrative autonomy, as well as legal status and its own economic resources and capital, that by virtue of its Fundamental Law the Tax Administration Superintendence enjoys, it defines its own annual work plan and necessary budget to implement it. Furthermore, it provides for its own internal and work regulation and defines the most appropriate way or organizing itself to carry out its work.

5.2 Annual Operating and Strategic Planning

Taking into consideration the elements described in its Fundamental Law, the Tax Administration Superintendence has the concrete possibility of establishing its Operating and Strategic Plans without the intervention of another agency, including exclusively the Institution's objectives. In this regard the SAT prepares its "Strategic Plans" with a four-year vision (as of this writing the 2008-2011 Strategic Plan is in effect) and its "Annual Operating Plans," which include the part of the Strategic Plan to be implemented in the fiscal year.

Said elements form part of the Planning and Programming Subsystem of the SAT, which is conceived as a set of interrelated elements that seek to provide the institution with a guiding framework that defines and supports its work. This involves a comprehensive management model and a solid basis offering the necessary inputs for follow-up and evaluation of the institution's performance, under the framework of development, modernization, and continued improvement of the Guatemalan Tax Administration.

The formulation of the Annual Operating Plan [POA] of the SAT is the process whereby the SAT establishes, in a detailed manner and by administrative agency, the projects and programs, its classification and priority, as well as the necessary resources, the sources of financing and responsibility for those. This is done to fulfill the working guidance set out by the Institutional Strategic Plan. The POA must be used as guidance to steer and distribute work to be performed during a specific year, and it must be the basis for the allocation of financial resources to the Institution and for monitoring and exercising control over management.

5.3 Formulation of The Annual Income and Expense Budget

In order to execute its Annual Operating Plan, the SAT allocates the financial resources in its Income and Expense Budget, so this is a resource allocation instrument to produce goods and services for a specific period of time.

Given the fact that the formulation of the SAT Annual Income and Expense Budget is based upon the Annual Operating Plan and the latter is in turn based on the Institutional Strategic Plan, both of which are drafted by Institution's agencies, the Budget reflects the needs of each agency as well as the financial requirements of each of the scheduled programs and projects for the corresponding fiscal year.

In order to tie in planning with the expense budget, the Tax Administration Superintendence has established three types of budget as follows:

a. Recurring operating expenses

This includes the budget appropriations earmarked for each Administrative Unit so they can carry out their ordinary or recurring work. For this type of budget, the "Program Operating Plans" which include objectives, execution goals, and recurring action indicators for each Administrative Unit are drafted. Thus, they are scheduled for further monthly and annual follow-up and evaluation.

b. Nonrecurring operating expenses

They involve current expense allocations for "Projects Strengthening the Tax Administration," which include so-called "Institutional Projects" and "Operating Improvement Projects." Their aim is to improve systems and procedures, which do not represent recurring expenses or investment spending.

In accordance with the International Accounting Standards, this type of budget corresponds to allocations for "research and development. This way of budgeting allows authorities to adequately control, follow up, and evaluate institutional projects and operating improvement actions.

c. Investment budget

This kind of budget includes the following components:

- Investment allocations that are not projects: Expenses on Property, Plant, Equipment, and Intangible Assets, excluding resources earmarked for the project category.
- Investment Projects: Projects and works of infrastructure allocated to the project category.

d. Exploratory budget, budget formulation standards, and budget ceilings

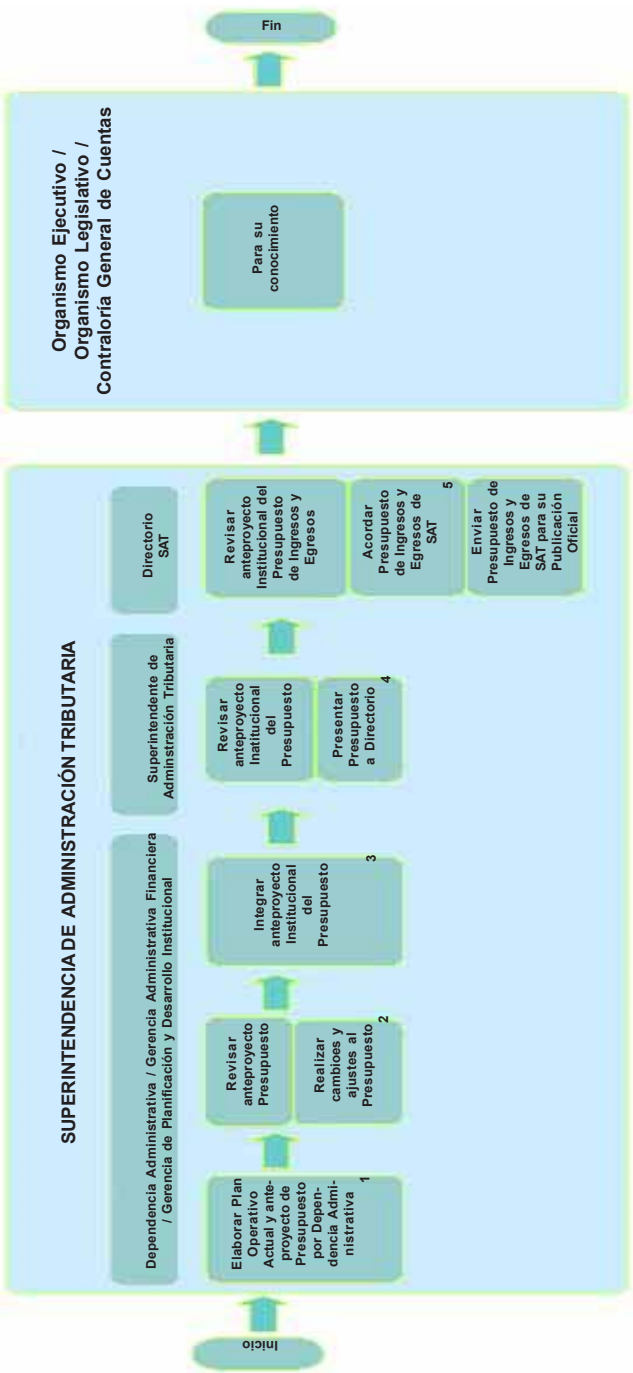
At the same time the "Institutional Strategic Plan" and "Annual Operating Plans" are reviewed, the SAT drafts an exploratory income and expense budget for the next fiscal year and a multi-annual budget for the next three years. To that effect, income and expenses earned and incurred in the preceding fiscal year are taken into consideration, along with year-to-date budget execution and a closing estimate for the current year.

In addition, policies and standards to formulate the income and expense budget are prepared and budget ceilings or highest allocation levels for the Recurring Operating Budget are set. These budgets are delivered to the heads of administrative offices, so that they can expense them in accordance with budget activities outlined in delivered policies and standards.

In order to budget Nonrecurring Operating and Investment Projects, the fund requirements budget priority items are established, and based on the real feasibility of their execution and resource availability, only those that have the highest priority are allocated.

All Units request the allocation of resources on the basis of set policies and standards, and subsequently the Institution's Financial Administrative Manager's Office consolidates the information into the Draft Budget, which is submitted to the Superintendent for validation and subsequent transfer to the Board for consideration and approval.

Table No.3
PROCESS OF FORMULATION OF INCOME AND EXPENSE BUDGET
OF THE TAX ADMINISTRATION SUPERINTENDENCE



Source: Financial Administrative Manager's Office, SAT.

As can be observed in the preceding table, the SAT is completely autonomous financially speaking, because its income and expense budget is drafted, analyzed, and approved by its own agencies and authorities, without the intervention of any other institution. This ensures that the budget will be drafted in keeping with the planning criteria that best suit the programs and projects of the Tax Administration, which ultimately makes spending more efficient as it is geared toward those programs and projects that best meet SAT objectives.

e. The execution of the annual income and expense budget

In order to execute its Annual Income and Expense Budget, the SAT is governed by the standards applicable in Guatemala for the state's financial administration, which include the Fundamental Budget Law and the Public Procurement Law.

It should be pointed out that although the SAT has the prerogative to decide on the programs and projects it will allocate its resources to, because of standardization issues regarding the Public Sector's accountability process, quote and bidding processes must be carried out observing the Public Procurement Law. Nonetheless, the SAT Fundamental Law establishes that the procurement of services and delegation of functions might be made in accordance with the provisions set forth in a specific Regulation the SAT has for that purpose.

Finally, it should be pointed out that in the process of executing its procurement of goods, materials, supplies, and services, the SAT is one of the few agencies of the Guatemalan Government that has in place a procurement- and contract-planning strategy, through a "Procurement Plan."

f. Budget closing and accounting liquidation

In accordance with the Political Constitution of the Republic and the Fundamental Budget Law, in Guatemala the Annual Budget and the fiscal year coincide with the calendar year, so it begins on January 1 and ends on December 31 of each year.

On the other hand, the Political Constitution of the Republic and the Fundamental Budget Law establish that in the three first months of each year, the liquidation of the annual budget must be submitted to the Comptroller General's Office and a copy of the same must be sent to the Executive Branch through the Ministry of Public Finance and Congress. This implies that the budget closing is scheduled for December 31 of each year and that the accounting period remains open until March 31 of each year, not to make budget allocations but to make reclassifications and adjustments that may be necessary without affecting the budget for the preceding fiscal year.

5.4 Accountability

The Superintendence is subject to oversight from the Comptroller General's Office. Furthermore, it must annually issue its Work Report, which includes a chapter on Accountability. There are no additional formal mechanisms concerning the accountability process.

In addition to the review made by the Comptroller General's Office and to ensure the adequate management of SAT resources, the Board mandates that the Administration hire External Auditors to provide direct reports to the Board.

Internally and in order to maintain an adequate accountability system, a set of performance and evaluation indicators on the actions carried out by the Tax Administration has been set up. This set of indicators provides follow-up for obtained products, the results of SAT management, and also quantifies the different levels of efficiency in the management of resources. In addition, the set of indicators is used as an input of the internal performance evaluation system that the Human Resource Office of the Institution has created.

a. Internal system of performance evaluation.

With the purpose of strengthening internal efficiency at the Institution, individual worker's performance is recorded on the Performance Evaluation System. This system is 85% comprised by the accomplishment of certain factors called Objectives, which reflect the productivity and efficiency of the employee's work, and 15% by the rating of certain behavioral factors of the employee. The latter are agreed for the reporting period by officials and employees as regards the performance of their tasks.

Managing performance implies adequately managing the different phases from respect to the established philosophy, objectives, policies, and rules to the performance of the roles assigned to each area. It also involves the adequate management of techniques and instruments set out to attain institutional objectives.

The general objective of the evaluation is to: Provide an objective, transparent, and reliable description so that officials and employees, through their attitude (subjective factors), can contribute to the attainment of management indicators (objective factors) in their area of responsibility or work, for a specific period of time.

In addition to being the means for recognizing the merits and achievements of employees, performance evaluation must be geared toward detecting areas

for improvement as well as to drafting a development plan. Said tool is also used to:

- Obtain an objective measure of the performance of SAT staff for the corresponding reporting period.
- Be an objective tool for consideration in the promotion of staff members.
- Obtain feedback regarding the policies of selection, training, keeping human resources, and organizational development.

5.5 Technological Tools for the Financial and Budget Management in the Tax Administration Superintendence

In addition to the widespread use of the Integrated Accounting System (SICOIN) beginning in the year 2000, when the SAT became the first decentralized entity of the Guatemalan State to embrace its use; the Procurement Management System or Computer Management System (SIGES) in 2008, and the Guatecompras System beginning in 2004, for which the Institution received an award for best practices in the public sector, the SAT uses in its planning and budgeting work a Resource Planning System known as Prosis.

a. The PROSIS (PRIMARY OBJECTS INFORMATION SYSTEM) System

PROSIS is a computerized tool implemented in 2005 with the purpose of providing the Institution with a technological framework that supports the management system currently in use at the SAT. This tool integrates a set of elements, which include:

- 1) The Strategic Plan (PEI), which defines the vision, mission, strategic and performance objectives, projects, and programs to be followed;
- 2) The Annual Operating Plan (POA), which defines in an annual basis the projects to be developed, their priority, classification of projects (group, categorization, and beneficiary), and their description. It also includes the funding, the individual responsible for the project, related agencies; as well as the activities to be performed and their correlation, departures, their scheduling, the description of resources when warranted specifying amount, description, cost, and weighting of each of the activities.
Regarding the program that the Institution is carrying out, it includes the information on the individual in charge of the project, his goals, management indicators, information on necessary resources, specifying the amount, description, and cost.
- 3) The set of management indicators of the Institution, which like we mentioned earlier are used in the formulation of individual performance evaluation for SAT workers.

The purpose of PROSIS is to improve the efficiency and effectiveness of the SAT, through the verification of analytic and strategic functions that generate value added, such as:

- Aligning the Institutional Strategic Plan with the Annual Operating Plan, the budget, and management indicators.
- Designing and implementing a comprehensive management system based on modern information technology tools.
- Allowing the integration of institutional activities.
- Contributing to the measurement of performance of the SAT administrative units, placing special emphasis on efficiency and effectiveness in the accomplishment of institutional objectives and goals.
- Minimizing organizational weaknesses at the institution.

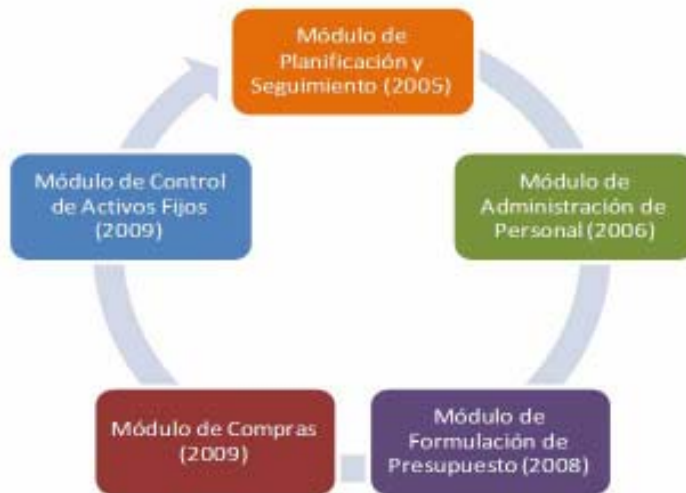
This tool is based on the concept of the so-called ERP (Enterprise Resources Planning) and it incorporates the processes of management of planning and financial, human, and physical resources. It uses 100% Web technology which facilitates its maintenance.

The first stage of Prosis began in 2005 when the development of the Management Follow-Up and Planning Module got under way. From that moment on, other phases such as mission, vision control, strategic objectives, operating objectives, management indicators, and Institutional goals have been implemented.

In 2007 the Personnel Management Module went into force. It allows for the complete automation of position management and payroll. Furthermore, it has allowed for automation in the recruitment and selection of personnel, the performance evaluation, maintenance of electronic curricula, and follow-up of asset declarations of workers, which complement the accountability system for SAT employees.

Table No. 4

MODULES COMPRISING THE PROSIS SYSTEM



In 2008 the budget formulation module was introduced in such manner that the entire planning and budgeting process was controlled by one single tool. Finally, authorities hope to conclude in 2009 the implementation of the procurement and fixed asset control modules, which will allow the administration to streamline the management of resources available for the Institution.

VI. FINAL THOUGHTS

A basic element as part of the institutional configuration of modern public entities is having effective technological tools in place in the management of finances and resources, which include monitoring and supervision not only for top management but also for the population, who ultimately pay taxes and to whom results must be presented for the use of their resources.

Consequently it is very important to focus on strengthening the institution. This must be done by highly qualified teams of professionals and with a clear vision and objectives to be fulfilled. Furthermore, it must come into fruition through processes and procedures made possible by modern technological tools, which facilitate transparency and publicity of administrative measures. This situation allows the population to perceive compliance with the principles

of legality and justice, which must prevail in the conduct of different administrative measures, while gaining credibility and countering resistance among the population for the payment of taxes.

Modern information tools and systems in administrative, financial, and budget management not only facilitate adequate strategic and operating planning but also allow for the definition of roles and functions for each administrative agency, based on long-term strategic institutional objectives. They also ensure a rational allocation and an effective use of resources. That is why, having adequate technological tools in place in the management of finances and the budget, for a timely and effective accountability process, does not only give the administration a positive impact in terms of efficiency and effectiveness in institutional performance, but also allows for a more satisfactory accountability process.

From the above, one may conclude that the management of tax administrations can be improved when they are given adequate and modern technological tools for their administrative, financial, and budget management, which also facilitate the timely and effective accountability process. In addition, the guidelines for the development of administrative, financial and budget management are influenced by the world environment and the control requirements of specialized entities in each society.

However, we must recognize that in every tax administration integrity is a necessary condition, although insufficient, to carry out its mission and it requires full dedication. In addition, in such complex and dynamic tax world as today's world, added to the troubled situation resulting from the global economic difficulties, efficiency is an indispensable condition to be able to live on and overcome the crisis with little or almost no effect on the tax base and taxation erosion.

That is why public resources must be appropriately managed, because when they are not used to benefit taxpayers and the tax administration, the possibilities to attain development go down significantly. Ultimately, this adversely affects the interests of the state and the population.

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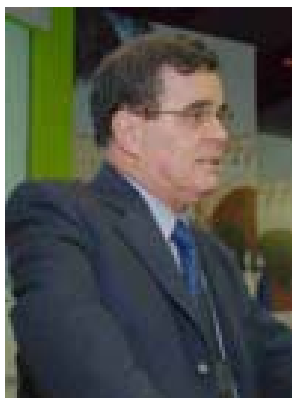
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FINAL COMMENTS

FINAL COMMENTS

Paulo Sérgio Dos Santos

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Mr. Paulo Sérgio Dos Santos

The first decade of the third millenium has been, beyond any doubt, the decade to consolidate modernization for most of the CIAT tax administrations (AT, in Spanish.) During this decade, tax administrations have started using modern tools - especially the Internet - and they have been able to take advantage of that use in terms of productivity and taxpayer assistance. Congratulations to CIAT for selecting such an important issue for the last Meeting of this decade.

The technical agenda of the Meeting was to be focused on analysing **"A Modern Vision of the Tax Administration in the Current Economic and Social Context"** and has been divided into three main topics and eight subtopics. The three main topics were: Information and Communication Technologies- TICs, in Spanish, to assist Tax Administration; Strategies to Promote Fulfillment of Obligations, the "Subjective Benefit" in Tax Administrations and Strategies and Tools for the Enhancement of Management in Tax Administrations.

Before discussing the development of the technical agenda, I must mention an issue that concerns all of us and which has been long discussed during the Meeting: the current economic crisis. Because of its international importance and the potential impacts on tax administrations, this issue was part of our discussions.

THE ECONOMIC CRISIS

The current economic crisis is one of the most important ones since the 1930's crisis. As Mr. Bengoa, Secretary of Finance of the Dominican Republic, stated: this is a perfect crisis; consumers are not consuming; banks are not giving loans; investors are not investing; and governments are not collecting funds.

This crisis will pose a series of challenges to tax administrations. It will probably be more difficult to collect taxes since taxpayers will try to balance off the floating capital reduction by defaulting on tax payment. Increases in delinquency and evasion might be expected. Taxpayers will try to ground the decrease in tax payments upon the reduction in economic activities. It is, therefore, essential to deeply understand how the crisis will affect different economic sectors and taxpayer segments to implement policies accordingly. In order to do so, information available in data warehouses of tax administrations will prove very useful.

It is important to try to estimate the reduction of income as a result of the crisis. Taxes have different elasticity and they assimilate diverse economic effects differently. Moreover, some sectors will be more affected than others. Taxpayers whose income depends on exports, profits and financial revenues and oil trading, among others, will be the most affected. It is important for tax administrations to revise income reported by those taxpayers taking into account the already mentioned projections of reduction in income.

Regarding the actions to be taken, control of medium and large taxpayers should be a priority. They generally account for 80% of the funds collected and it is, therefore, important to make sure that they submit tax returns and pay properly and on time. It is also necessary to control more carefully treatment of losses, transactions with foreign currencies as well as their transfer prices.

Finally, another challenge that many tax administrations will have to face is the cut of the expenditures budget. This is an unavoidable consequence, along with cutting the budgets of other government agencies.

TICS AS ATS ASSISTANTS

With lectures and cases presented during the Meeting, a huge improvement made by our administrations as to the use of modern technology is seen. Technology has allowed for a significant increase in the ability to control tax administrations by means of cross-referencing and massification of control procedures.

This will result, beyond any doubt, in higher efficiency and effectiveness. As far as consumers are concerned, a broad series of services has been made available to taxpayers. First, the questions about the legislation. Second, e-filing of tax returns and e-payment. Third, update information on the taxpayers' registry via the Internet, access to their current account information, etc. There is no doubt that our administrations have made a huge improvement during this decade.

However, it is necessary to be careful as to the implementation of TICs. On the one hand, it is clear that any transformation of ATs will require the use of TICs. On the other hand, it is really important to assess their impact and costs. The high costs of new projects of TICs in some CIAT member countries call our attention. It is also important to note that there is no intention to mechanize current procedures, but to change tax administration procedures. Finally, it is necessary to abide by the law in order to profit from TICs to the fullest.

TICS STRATEGIC PLANNING: DILEMMAS

Very important decisions have to be made as to the TICs strategy. CIAT tax administrations have taken different approaches. There are, however, challenges that are common to most administrations: How to plan for the medium and long terms when there are daily pressures for immediate results; what equipment to acquire since technology changes on a permanent basis and bids are delayed; how to balance actions to make fulfillment of obligations easier and control actions; which part of the work will be outsourced; what resources will be kept for unforeseen events.

There are some issues over which there is broad agreement though. The first one refers to the fact that the TICs strategy should be in line with and subject to the AT strategy. Another refers to the importance of coordination with other agents involved (State and municipal governments, taxpayers associations, banking network, etc.) It is also important to clearly define the model for computing management (business monarchy, TIC monarchy, feudal model, federal model, duopoly and anarchy model, as described by Mr. Juan Hernandez, Director of Domestic Taxes of the Dominican Republic.) Human resources are still a key factor and, in some cases, there is no flexibility as to the hiring process. It is important to take into account that tax administrations fluctuate in a highly changing context, which requires a very flexible plan. TICs systems users have to be trained in IT in order to know their potential ability to solve problems and to better use it. TICs specialists have to be trained in those tax administrations business areas and they also need to adapt their structures to those of the tax administrations.

DEVELOPMENT OF MASS CONTROL ACTIVITIES (TAX RETURNS AND PAYMENT)

Regarding mass control of taxpayers, there has been a significant improvement as to e- submission of tax returns and e- payment. In spite of that improvement, some administrations are still managing a huge number of tax returns and payment in paper.

There should be very ambitious purposes in this area. The aim should be the implementation of a tax administration without papers. In order to do so, it is necessary not only to develop TICs support systems, but also an efficient strategy to promote e- submission of returns and e- payment as well as other services offered over the Internet.

As regards e-returns, formats should be customized for taxpayers. Thus, a taxpayer who does not receive a certain type of income (for example, rental income or income from capital) should not see that section of the tax return. And for a taxpayer who performs simple activities, the return would be extremely simple. Moreover, a mechanism to automatically transfer necessary data from the previous tax year should be made available. In the United States, there is software for sale with these characteristics, which should be included in the new software for tax preparation.

Some CIAT countries are already adopting pre-prepared tax return. This is very positive and reduces costs to taxpayers and tends to increase levels of fulfillment of obligations. It is based on an extensive information cross-referencing system with various payment sources (income, interests, dividends, etc) as well as deduction sources.

It is necessary to be careful as to excessive requirements. For example, requiring a taxpayer to have a bank account in order to submit an e-return is counterproductive and prevents the system from expanding.

Some administrations have sought support in the technology structure of the banking system of their countries. Although this has been an appropriate and pragmatic decision, it would be necessary to revise it so that there is no future technology dependence on organizations outside tax administrations; in the private sector, in particular.

Another area that should be highlighted is mass control over fulfillment of obligations. Countries such as Chile and Brazil have had a productive experience in relation to this. The idea is to have permanent mass controls (over income tax every year and over VAT, for example, every three or six months), in which all returns are revised by the computing system- different cross-referencing are applied- and discrepancies are identified. A group of employees of the administration should be appointed to contact taxpayers for them to correct their mistakes.

In sum, we should computerize as much as possible. Thus, employees of tax administration should only focus on exceptions and other activities that require more intelligence.

DEVELOPMENT OF TAXPAYER SERVICES

The development of taxpayer services requires a clear and efficient strategy. Said strategy must include an honest communication with taxpayers, perfect awareness of their needs, a smart model of implementation and a lot of creativity.

The experience of several countries shows us that it is essential to work hand in hand with taxpayers and their representative unions in the design of service systems. They can express their concerns and ideas about how to solve problems. They can also be an important source of support as to the spread of the use of new systems. It is really important to be aware of their needs.

Implementation strategy is a key issue. In many cases, it has to be gradual and certain taxpayers groups should be used for trial (for example, starting with the implementation of e- bills by large taxpayers.) As regards the systems model, the life cycle of the taxpayer should be taken into account and TICs should be developed to support that cycle. Taxpayers will register, change their information, issue bills, keep accounting books, submit tax returns, which will be controlled, and taxpayers can submit claims as to said control, are subject to collection and can request refunds and closure when they go out of business. The TICs system via the Internet should offer support in all these areas.

Moreover, it is necessary to find a balance among groups assisted by tax administrations. If e- bills, which at first result in benefits to large taxpayers, are implemented, systems such as "pago fácil" (easy payment) from Peru should be implemented to benefit small taxpayers.

It is important to be creative and forget about bureaucracy and conservatism in the design of new service systems for taxpayers. It is necessary to have innovative ideas, such as the ones presented during the Meeting: simplified tax returns via SMS, simplified accounting computing systems for small taxpayers, e- bill system, e- tax documentation systems, taxpayer mobile service, digital tax procedures, etc.

STRATEGIES TO PROMOTE COMPLIANCE AND "SUBJECTIVE BENEFIT"

There was some conceptual discussion about this issue. Although we all appreciate those taxpayers who fulfill their obligations, the issue is whether they should be awarded for complying with the law. Whatever the case, it does not seem appropriate to reduce the tax burden to those who properly fulfill their tax obligations. Some tax systems establish a discount in case of

advance payment of some taxes; however, this cannot be deemed as an award for compliance, but a financial compensation for advance collection. Some non- monetary awards are acceptable, such as the recognition of good taxpayers. Some countries allow those taxpayers to take pictures with high-rank officials or get certificates, or even have their names published in the media.

So, it would be necessary to make some important decisions before implementing a subjective benefit system. How would we decide who a good taxpayer is? That is, what would the default margin be in order to keep a good taxpayer status? (one- year delay in payment, for example.) To answer these questions, it would be necessary to have a procedure similar to those of risk analysis applied in the selection of taxpayers for control and collection. What would the incentive be like? As mentioned earlier, it should be a non-monetary benefit. Who would be benefited in the case of legal persons? Would it be the company or its high- rank members?

EXAMINATION APPROACH BASED ON TAXPAYERS BEHAVIOUR

The behaviour investigation as to compliance as well as the compliance agreement used in some countries (Canada and the Netherlands) are appropriate measures whose implementation should be considered in other CIAT member countries that have not yet done so. The behaviour investigation might be an excellent complement to the risk analysis system.

The compliance agreement seems to be an efficient policy for Canada and the Netherlands, but it is important to analyze those measures taking into account the level of default in the payment of taxes in each country. Default in payment of VAT in Canada and the Netherlands equals about 10% of its potential collection, while in Latin America, it is equal to 20% or 40% for most of the countries. Also different is the willingness of taxpayers to cooperate with the tax administration.

INCENTIVE AND COMPLIANCE FACILITATION PROCEDURES BASED ON TAXPAYERS BEHAVIOUR

Procedures for incentives and sanctions are somehow two sides of the same coin. The use of techniques as to behaviour investigation and risk analysis can help identify good taxpayers and, by difference, those who default in payment. In our technical assistance work, we have proposed the concept of white list- and some countries have adopted it. In contrast to the black lists used by credit card companies in the past, the white list shows the names of those taxpayers that properly fulfill their obligations to submit returns and pay taxes.

The system establishes that in order to perform certain activities, taxpayers have to appear in the white list. Among others, performance of the following activities requires the taxpayer to be in the white list of the tax administration: imports and exports; tax refunds; authorization to print and use bills; sales to the government.

STRATEGIES AND TOOLS TO IMPROVE ATS MANAGEMENT

Strategies to improve tax administrations management must be based on some basic principles in order to be successful. The first principle is stability in the administration direction. In some CIAT countries, the average time in office for a general director or similar officer is less than two years. This implies, of course, a "short-term" approach to the administration and, hence, the difficulties to solve its structural problems.

Another key principle is the permanent strengthening of human resources. As regards this issue, we are concerned about the instability of the HR systems in some member countries. In those countries, whenever there is a change of government officials, a great number of officers of the tax administration also changes. This implies recruiting, training and inefficiency costs since it interrupts control and ongoing service programs for taxpayers.

A critical factor that is sometimes forgotten is coordination with the context. It is important that the administration takes into account concerns of taxpayers and other agents involved in the tax processes.

Flexibility and autonomy as to budget management are another key factor for the success of a tax administration. If the administration has no stable budget enough to bear its costs, including investment in technology and infrastructure as well as staff costs, its results will be negative. Autonomy, of course, should be accompanied by control and transparency policies to make sure that public funds applied in tax administration are used correctly.

The proper balance among services to taxpayers and control of their compliance is another key factor. In a context of self payment, it is an obligation of the tax administration to provide with assistance to taxpayers so that they can voluntarily fulfill their obligations. Said assistance must be based on the principle that taxpayers are honest and want to pay whatever is stated pursuant to the laws. But if they do not comply with the law, administrations must be ready to detect their default and apply proper penalties. Service and control actions must be strongly based on modern and efficient TIC systems.

MANAGEMENT CONTROL AND ATS PERFORMANCE INDICATORS

Performance indicators are an essential tool for tax administrations. Their use has to be interpreted as a five- stage cycle; 1) design of indicators; 2) goal setting for each indicator; 3) production of indicators during operation of tax administration procedures; 4) analysis and identification of mistakes in the indicators; 5) actions to correct mistakes found.

It is necessary to be careful as to the introduction of management indicators systems. First, they need to be produced, in almost its entirety, automatically by TICs systems. Second, it is necessary to start with a reduced number of indicators and gradually expand it.

HR MANAGEMENT: TRAINING, STRAEGIES, PLATFORMS AND TOOLS- E- LEARNING IMPLEMENTATION

Unfortunately and in spite of its importance, HR management is still deficient in some tax administrations. As mentioned earlier, a significant number of employees are laid off whenever the government changes in some countries. Salaries, in many administrations, are not adequate, career plans are to be implemented and training is not a priority as it used to be.

Human resources problems have to do with the reduced period of time of general directors in office. As the results of investment in human resources take long to materialize, said investment loses its priority.

As regards training, there is still a lot to do. Annual training plans are not regularly prepared and, if prepared, they are not executed. E- learning is not ideal, but it has to be an important part of the plan. It reduces costs and increases access to training, it can help standarize training, courses can be interchangeable (cooperation among countries), and CIAT can be an important source for courses.

TECHNOLOGY TOOLS IN BUDGET AND FINANCIAL MANAGEMENT

We have already mentioned the importance of the administrative and financial autonomy of tax administrations. Said autonomy should have proper control and management tools. To do so, it is necessary to have efficient and transparent financial management systems.

Tax administrations have adopted different strategies as to their financial control systems. Many of them are required to use the government financial

system (SIAFI or a similar one.) Others use products that are offered in the market. In both cases, transparent mechanisms for the control of the financial management of the ATs are necessary. This includes release of the use of resources and financial results of the tax administration management.

CONCLUSION

Generally speaking, CIAT countries have taken advantage of TICs to modernize their tax administrations. They have been able to implement efficient control systems and complete systems to assist taxpayers. This has required complete and flexible plans to be able to face the changing context in which tax administrations work as well as bureaucracy difficulties; slow bid processes in particular.

Although improvements are important, there is still a lot to do. It is then important to have good rapport with taxpayers to be aware of their concerns and suggestions. Also, it is necessary to take into account the life cycle of taxpayers in order to support them throughout all stages of the cycle. As regards compliance control, it is necessary to implement TICs systems based on risk analysis and cross-referencing and backed by behaviour investigation as regards tax compliance.

DAILY SCHEDULE OF ACTIVITIES

**43rd CIAT GENERAL ASSEMBLY
Santo Domingo, Dominican Republic
April 20 - 23, 2009**

DAILY SCHEDULE OF ACTIVITIES

MAIN THEME: A MODERN VISION OF THE TAX ADMINISTRATION

MONDAY, APRIL 20

Morning

09:00 - 09:30 Inaugural ceremony (30')
09:30 - 10:00 Official photograph and Coffee break

Moderator: Willilam Baker, Commissioner and Chief Executive Officer, Canada Revenue Agency

Inaugural Conference: A Modern Vision of the Tax Administration in the current economic and social context.

10:00-10:30 **Speaker (30')** Partharasati Shome, Chief Economist of the HM Revenue and Customs, United Kingdom

TOPIC 1: THE INFORMATION AND COMMUNICATION TECHNOLOGIES AT THE SERVICE OF THE TAX ADMINISTRATION

10:30 - 11:05 **Speaker (35')** Juan Hernández, Director General of Internal Taxes, Dominican Republic

11:05 - 11:15 **Commentator (10')** Juan Toro, Director of the Revenue Administration Division, International Monetary Fund

11:15 - 11:45 Debate (30')

Topic 1.1: Strategic planning of the ICTs: Dilemmas posed by the current environment.

Moderator: Roberto González Cárdenas, Chief Office for Development and Custom Innovation, Integrated National Service of Customs and Tax Administration, Bolivarian Republic of Venezuela

Daily Schedule of Activities

- 11:45 - 12:05 **Speaker (20')**: Eduardo Poggi, Advisor on Information Technology, Federal Administration of Public Revenue, Argentina
- 12:05 - 12:25 **Speaker (20')**: Raúl Zambrano, Technical Assistance Manager, CIAT
- 12:25 - 12:55 Debate (30')
- 12:55 - 14:30 Lunch

Afternoon

TOPIC 1.2: THE PROMOTION OF MASSIVE CONTROL ACTIVITIES (FILING AND PAYMENT).

- Moderator:** Carlos Marx Carrasco, Director General of the Internal Revenue Service of Ecuador
- 14:30 - 14:50 **Speaker (20')**: Intikhab Shaik, Executive, Modernization Strategy and Design (Core Tax), South African Revenue Service
- 14:50 - 15:10 **Speaker (20')**: Manuel Velarde Dellepiane, National Superintendent of Tax Administration, Peru
- 15:10 - 15:40 Debate (30')

Topic 1.3: The promotion of taxpayer services

- Moderator:** Pluvio Mejicanos, Vice Minister of Public Finance, Guatemala
- 16:00 - 16:20 **Speaker (20')**: Néstor Díaz Saavedra, Director General of National Taxes and Customs, Colombia
- 16:20 - 16:40 **Speaker (20')**: Ricardo Escobar, Director of the Internal Tax Service of Chile
- 16:40 - 17:10 Debate (30')
- 17:10 -18:00 EurosociAL Project (Meeting only for representatives of beneficiary countries)

TUESDAY, APRIL 21

Morning

TOPIC 2: STRATEGIES FOR PROMOTING COMPLIANCE, THE "SUBJECTIVE BENEFIT" IN THE TAX ADMINISTRATIONS

Moderator: Germania Montas, Deputy Director General of Internal Taxes, Dominican Republic

09:00 - 09:35 **Speaker (35')**: José Antonio Pereira, Director General of Taxes of Portugal

09:35 - 09:45 **Commentator (10')**: Claudino Pita, Executive Secretary, CIAT

09:45 - 10:15 Debate (30')

10:15 - 10:35 Recess

Topic 2.1: Criteria for orienting examination on the basis of taxpayer behavior.

Moderator: Bronislav Mikel, Deputy Director General and Director of the Department of Management and Economy of the Territorial Financial Authorities, Czech Republic

10:35 - 10:55 **Speaker (20')**: Marian Bette, International Affairs Team, Dutch Tax and Customs Administration, The Netherlands

10:55 - 11:15 **Speaker (20')**: Lyse Ricard, Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency

11:15 - 11:45 Debate (30')

Topic 2.2: Incentive and compliance facilitation mechanisms based on the behavior of taxpayers.

Moderator: Michael Crichlow, Tax Commissioner, Ministry of Finance, Bermuda

11:45 - 12:05 **Speaker (20')**: Frank Ng, Commissioner of Large and Mid-Size Business Division of the Internal Revenue Service of the United States

12:05 - 12:25 **Speaker (20')**: Francisco Fonseca, Director General of Taxation of Costa Rica

12:25 - 12:45 **Speaker (20')**: John Karimi Njiraini, Commissioner of Domestic Taxes, Large Taxpayers Office, Kenya Revenue Authority

12:45-13:15 Debate (30')

13:15 - 15:00 Lunch

Afternoon

15:00 - 17:30 Administrative Session

WEDNESDAY, APRIL 22

Integration activity

JUEVES, 23 DE ABRIL

Morning

**TOPIC 3: STRATEGIES AND INSTRUMENTS FOR IMPROVING
MANAGEMENT IN THE TAX ADMINISTRATIONS.**

Moderator: Juan Hernández, Director General of Internal
Taxes, Dominican Republic

09:00 - 09:35 **Speaker (35')**: Marcelo Lettieri Siqueira, Fiscal Auditor, Federal
Revenue of Brazil

09:35 - 09:45 **Commentator (10')**: Marlene Ardaya, President Executive of
the National Tax Service of Bolivia

09:45 - 10:15 Debate (30')

10:15 - 10:35 Recess

**Topic 3.1: Management control and the indicators
for measuring the performance of the Tax
Administrations.**

Moderator: Jamila Isenia, Director Taxes Inspectorate
of Tax and Custom Administration of the
Netherlands Antilles

10:35 - 10:55 **Speaker (20')**: Bruno Soulie, Deputy Director of Performance
and Control Management, General Directorate
of Finance and Public Revenue of France

10:55 - 11:15 **Speaker (20')**: Fernando Díaz Yubero, Director Department
of Organization, Planning and Institutional
Relationships, State Agency of Tax Administration
of Spain

11:15 - 11:35 **Speaker (20')**: Alfredo Gutierrez, Head of the Service of Tax
Administration of Mexico

11:35 - 11:45 **Commentator (10')**: Jeffrey Owens, Director of the Center of
Tax Policy and Administration, OECD

11:45 - 12:15 Debate (30')

Topic 3.2: Human resources management: training, strategies, platforms and tools that facilitate e-learning.

Moderator: Celia De Pablos, Director of the Public Finance School, Tax Studies Institute of Spain.

12:15 - 12:45 **Speaker (30'):** María Raquel Ayala, Director of Tax Studies, CIAT

12:45 - 13:15 Debate (30')

13:15 - 14:45 Lunch

Afternoon

Topic 3.3: The technological tools in financial and budgetary management for timely and effective accountability.

Moderator: William Layne, Permanent Secretary of Finance, Government of Barbados

14:45 - 15:05 **Speaker (20'):** Enrico Martino, Head of International Relations at the Finance Department of the Ministry of Economy and Finance of Italy

15:05 - 15:25 **Speaker (20'):** Rudy Villeda, Superintendent of Tax Administration of Guatemala

15:25 - 15:55 Debate (30')

15:55 - 16:10 Recess

16:10 - 16:20 Evaluation of event

16:20 - 16:50 **Final remarks:** Paulo Sérgio Dos Santos, Specialist in Tax Administration and ex CIAT Director of Technical Cooperation

16:50 - 17:20 Closing ceremony

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43rd CIAT GENERAL ASSEMBLY
Santo Domingo, Dominican Republic
April 20 - 23, 2009

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