

Case study

Topic 1.1

THE DEVELOPMENT AND STRENGTHENING OF THE CITIZENS' TRUST: THE ACCOUNTABILITY MECHANISMS IN THE TAX ADMINISTRATIONS

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SUMMARY

Over the last years, the General Directorate of Internal Revenue (DGII, in Spanish) of the Dominican Republic has been developing an information program for taxpayers and the society at large, which is an integral part of the information that it publishes for accountability purposes. This document is concerned with the experiences obtained from the execution of such program, which have been the basis for its preparation.

The abovementioned program started in 2005 within the framework of the DGII's strategic planning, and its purpose is for citizens-taxpayers to be able to access the DGII's website for information, rather than asking for information.

This paper addresses the approach and the scope of the strategy intended for the development of an accountability culture, and considers the essential elements to achieve this paper's objectives, namely: what are the reasons to promote accountability; why it is important to promote it, how it relates with the officers' law and ethics and the importance of measuring citizens' perception of the DGII's performance by means of surveys.

Finally, the DGII's point of view is discussed, which believes that the promotion of accountability and citizens' information is part of its transparent management.

1. INTRODUCTION

Within the framework of the concepts of governance or corporate governance, the set of good accountability practices is usually identified with the English term “accountability”; however, the Latin American Center for Development Administration (CLAD, in Spanish) in the CLAD’s 2000 Scientific Council adopted the Spanish translation of such term as “responsabilización”. While this word may seem confusing, there are experts on the issue of accountability who have already adopted it in their studies.

In public entities, mainly those with a “technical” profile, whose performance is measured exclusively against quantitative goals achieved from operating efficiency and effectiveness, as is the case of the Tax Administrations, the practice of Accountability is formulated through two logics, as stated by IDB’s specialist Koldo Echebarría¹: One logic concerned with the strict performance of the regulations established for public management practice, and another logic that pursues the attainment of objectives and the presentation of results. Striking a balance between exercising a rule-centered public management and achieving the expected results stands as a big challenge for the institutions who want to incorporate accountability as an integral part of their work. Echebarría believes this situation is “a real dilemma that should be considered in any accountability strategy, which has proven particularly difficult in the case of State officers”.

Despite this dilemma, there is no doubt that accountability is an essential aspect in a reform process aimed at achieving a modern state. A modern state should have efficient and effective mechanisms so that their citizens may know what it is being done, how it is done and assess its performance.

Proper accountability is a key factor to achieve an adequate image of the Tax Administration, to the extent that it provides the citizens-taxpayers with the tools to assess performance and compliance with an organization responsible for administering laws.

While the Tax Administration enjoys the lawfulness deriving from the body of rules of each country’s public finances, we believe that its legitimacy is obtained from the ethic and responsible exercise of the authority conferred by the law upon the Tax Administration.

¹ See the article on *Managerial accountability and responsibility: institutions rather than instruments*, from CLAD’s book on *Public management accountability and assessment*.

The society's perception that the Tax Administration exercises its functions in accordance with the laws and the tax equity principle, reasonably and efficiently as to the administrative and financial areas, will definitely bring about a legitimacy that will facilitate the entity's operations.

The 2009 International Transparency Barometer reports on an increasing concern for corruptive practices inside the private and the public sectors. According to this document, more and more citizens perceive the private and the public sectors as corrupt; i.e., organizations and institutions at large.

The study shows that nearly 7% of the respondents have bribed the tax authorities around the world once. To gain the citizens' respect, the law enforcement authority should prove to be in compliance with the applicable laws. This entails a greater commitment from the tax authorities to showing society that they abide by the laws and the ethics.

This document will explain how the DGII has adopted accountability and citizens' information as part of its work; what mechanisms have been used to bring forward to the interested parties the information regarding the institution's performance.

2 DGII'S STRATEGIES TO INFORM TAXPAYERS AND THE SOCIETY AT LARGE

The DGII's Vision includes the commitment to being a credible and prestigious organization. The attributes of credibility and good reputation are cultivated through the observance of the laws, the ethical and unobjectionable professional conduct of its officers, the fulfillment of the undertakings and goals assumed by the organization as to the society and its accountability.

The taxpayers and the society at large will believe an organization is credible to the extent that their interaction with it meets their expectations, and based on the information at their disposal to give an opinion on its performance. This is why our vision is to:

"Become a prestigious and credible organization that uses policies, procedures and information systems that operate efficiently, staffed

by ethical and professionally unobjectionable people who abide by the norm of increasing tax collection steadily, reducing tax evasion and respecting taxpayers' rights".

For the DGII, accountability is part of its work. We believe that the organization's legitimacy has partly to do with its transparent practice. Even though the DGII as a public entity has its own institutional legitimacy, a power stemming from its own reason d'être, what is pursued is that the institution may gain greater legitimacy as a result of the manner it exercises such power.

Given the relevant role the DGII assigns to information, the Strategic Planning defines four objectives. Among them one stands out that relates to the topic of this paper: "To create efficient information mechanisms for taxpayers and the society at large".

Therefore, a citizen-taxpayer information scheme on the DGII's actions has been designed, and it is divided into four segments:

- **Administrative-financial performance.** It concerns the administration of the funds received by the DGII as an autonomous entity² to cover expenses and investments, and with relation to the compliance with the regulation on acquisitions.
- **Performance as a collection entity.** Its plan to achieve the collection goal and the results obtained.
- **Income and assets of its employees and officers.**
- **On taxpayers' obligations and how to fulfill them³.** It concerns the education strategy and the services provided by the DGII, which are covered by this document.

Accountability is regarded as part of good corporate governance practice. While it is a duty of tax administrations that the DGII should operate adequately, it is also a duty that citizens should know what the DGII does, how, and be able to assess it.

This decision goes beyond the legal reporting requirement ruled in the Dominican Republic by the General Act 200-04 of Free Access to Public Information, of July 28 of 2004.

² Section 14 of Act 227-06 provides that "The budget of the General Directorate of Internal Revenue will be two percent (2%) of the effective collection obtained each month from administered taxes".

³ This aspect will not be discussed in this document since we intend to focus on the information related to the DGII's performance.

This regulation provides wide powers to Dominican citizens regarding public information; in this sense, it establishes that all the persons are entitled to request and receive thorough information on any branch of the Dominican State and on all corporations and businesses having state participation.

The information referred to in the Law should be contained in the records and files of the public administration, which are documents kept in written, visual or sound means, or otherwise, which fulfill public purposes or objectives; and are provided as long as they do not affect the national security, the public order, the public health or moral, or the privacy rights or reputation rights of third parties. The law provides some limitations and exceptions as to the delivery of information where the secrecy imposed by the laws or judicial or administrative decisions cannot be violated in certain cases.

On the other hand, the Law establishes that state entities should have a permanent and updated information system regarding all their acts and activities, for which they should, in addition to their publication through the available means, computerize and incorporate such acts and activities into on-line communication systems or similar. So, they must bring in the publication of their respective webpages in order to facilitate the free access to the public with no need of a prior request, in accordance with the above cited Law.

Additionally, they are required to provide the information created or obtained by them or which is in their hands and under their control, and contained in written documents, photographs, recordings, magnetic or digital means or otherwise; including in such information, in the event it is the basis of any administrative decision, any type of financial documentation relative to the public budget or deriving from private financial institutions.

Alternatively, the Application Regulations of the Act 200-04 provide that the state entities and private law bodies receiving resources from the National Budget should create their respective Information Access Offices (OAIs, in Spanish) at which citizens may request the information authorized to them by the law.

Available information:

In this context, the DGII has set up information mechanisms where the citizen-taxpayer may obtain as much information as possible regarding

its management. We have a transparency portal as an integral part of the DGII's website (<http://www.dgii.gov.do/transparencia/Paginas/SeccionTransparencia.aspx>), which includes an on-line Public Information Access Office (OAI, in Spanish) and an OAI located in the DGII's main building, which is the channel whereby any citizen having no access to electronic means may obtain the information required from the institution⁴.

1) Accountability in the administrative-financial performance environment:

In this environment, one of the objectives is to prove compliance with the provisions of Act No 340-06 on the State's Purchases and Contracts of Goods, Services, Works and Concessions, and its amendments, and show the manner in which the DGII has expended and invested the resources received for collection purposes. The cited law provides the overall principles and rules governing public contracts, as related to the State's goods, works, services and concessions.

As an autonomous and decentralized body, the General Directorate of Internal Revenue is subject to the regulations provided for by the National System of Public Purchases and Contracts, established within the context of the Act 340-06 on Public Purchases and Contracts, and its amendments, the Regulation 490-07 and several resolutions issued by the System's Regulatory Body.

One of the principles governing the acts of the bodies covered by the System is the transparency and publicity principle. According to number 3 of Section 3 of the Act 340-06, the purpose is that "all stages of the public purchases and contracts contemplated in this act should be executed within a context of transparency based on the publicity and dissemination of the acts deriving from the application of this law. Contract procedures will be publicized through suitable means as per the requirements of each process. Any interested party will have free access to the administrative contract file and supplementary information. The use of information technology facilitates the community's access to the State's management on such matter".

Alternatively, Act No 227-06, which grants legal personality, functional, budgetary, administrative and technical autonomy and self-owned

⁴ *The DGII's limitations on the delivery of information are contained in a public document that is included in the OAI's transparency portal, called: GUIDE ON THE EXCEPTIONS AND LIMITATIONS IMPOSED BY THE GENERAL ACT ON FREE ACCESS TO PUBLIC INFORMATION No 200-04 APPLICABLE TO THE DELIVERY OF DGII'S INFORMATION.*

assets to the General Directorate of Internal Revenue (DGII), provides the obligation to publicize the financial statements audited by an external firm.

Regarding the issue of financial and administrative performance, the DGII has three types of information, all contained in the Transparency Section of our website:

a) Information on budgetary performance: In the DGII's Transparency Section, taxpayers may access:

- I. The Budgetary execution report. Contains staff and current expenses, as well as capital investment with recorded figures and the availability of the monthly and accumulated budget.
- II. Special projects: Is a detailed report on the main projects undertaken by the DGII, such as Fiscal Printers and Data Center, along with all the annexes supporting the execution thereof.
- III. Tax refunds: Presents outlays or payments made for different tax refund items, broken down by beneficiary, amount, date and item.

b) Information on the purchase and contract process. The Transparency Section shows the following information:

Required by the legislation:

- Public Tender Notices: inform to the citizens the diverse calls made for acquisition processes through the tender modality and the general purpose thereof.
- Bid Terms and Conditions: include the general and technical data on the goods or service being tendered.
- Questions and Answers: present the concerns brought forth by the interested bidders and the institution's opinions on such regard.

Not required by the legislation:

- Technical report: contains the assessment of the compliance with the evaluation criteria of the different technical and economic proposals submitted by bidders and the final recommendation issued by the Evaluation Committee.

- Record of adjudication: contains the final adjudication opinion issued by the Tender Committee, based on the information included in the Technical report and the considerations of its members as to the fulfillment of legal procedures and the institution's requirements.
- Winning offer: contains the full digitalized copy of the winning bidder's proposal.
- Non-winning offers: contains the full digitalized copies of the non-winning bidders' proposals.
- Letter of adjudication to the winning company: contains a full digitalized copy of the letter communicating bidder that they has won the bidding process.
- Letters to non-winning companies: contain a full digitalized copy of the letters communicating non-winning bidders that they have failed in the bid.
- External administrative audits: they present the reports or opinions of the audits performed to the DGII's purchase processes by well-known external auditors to verify the compliance with the provisions established by the effective legislation on state purchases and contracts.

c) DGII's financial information: This section shows:

- The Balance Sheet, which presents the financial position of the DGII, its assets, liabilities and shareholder's equity, each account with its properly detailed and identified annexes, cut off monthly and audited at year end by a certified external audit firm.
- Statement of revenue and expenditure: reflects the earned revenue (from budgetary allocation and its own revenues) minus expenditures or payments made, with a detail of each payment made to each beneficiary, along with the amount, date, payment item, etc.
- External financial audits: present the reports or opinions of external audits performed to the DGII's financial statements by external audit firms and the Chamber of Accounts.
- Cash in banks and banking reconciliation: is the availability of cash in bank accounts.
- The DGII as withholding agent: this report presents the DGII's compliance with the payment of taxes withheld from salaried workers, individuals, ITBIS [tax on the transfer of industrialized goods and services], etc.

2) Accountability in the environment of a collection entity:

In the DGII's website there is a Statistics Section that contains periodical bulletins and publications and especially an area devoted to showing the collection results by month and year, with respect to the budgetary estimation established in the national budget and the previous year. These reports include an analysis of each tax collected by the DGII, which is of great usefulness.

Additionally, there is an analysis of the sales behavior in respect of the VAT returns of taxpayers by economic sector. This information has become the primary input for the country's economic activity calculations.

The fact that the publication of this report is made with respect to the collection results as against the national budget's allocations, whether these are positive or negative, in the first week of each monthly, is a sign of the DGII's commitment to rendering accounts to the citizens.

Besides, a summary of the DGII's plan for the year can be consulted, as well as a document showing the alignment of the executed projects with the strategic objectives.

3) Accountability of income and assets of employees and officers:

In addition to the organization's information, the DGII's Transparency Section provides data relating to the officers and employees of the institution. The following can be consulted:

- The Staff payroll: provides a detail of the monthly payment received by each employee, identifying their name, position and salary.
- Income Tax Returns and the Assets Annex required from each senior officer (Director and Assistant Directors).

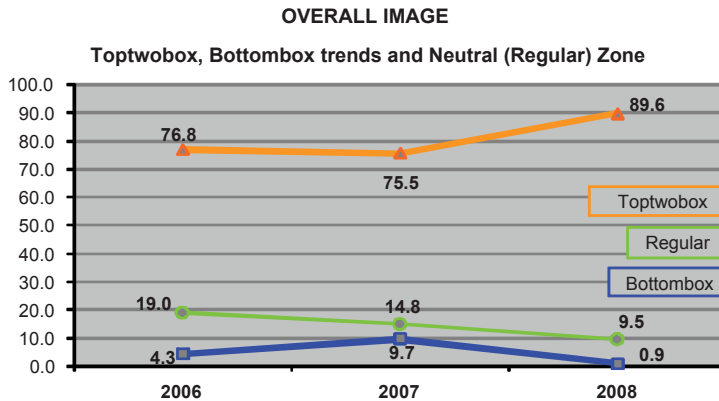
What is pursued through these data is that interested citizens may follow up officers' performance and be knowledgeable of such officers' income and lifestyles.

4) Taxpayer's perception of the DGII:

One way to measure the taxpayers' perception of the DGII's performance is by conducting surveys on a representative sample of taxpayers.

In this sense, the DGII has been conducting an image survey each year since 2006⁵, with external companies specialized on this issue. Below are the results of such surveys regarding the overall image, trust, credibility, transparency and ethical reputation. In each graph we show the so-called toptwobox results (the two best types of results: excellent and good), bottomtwobox (the two worst results: bad and very bad) and the neutral or regular zone.

From the graphs it is observed that in the last year the neutral or regular responses go down, while excellent and good responses go up.



⁵ The 2005 survey was conducted between October and December of that year by Gallup Dominicana, with a sample error of 5%. The 2006 survey was carried out by the DGII with a sample error of 5%, between September and October of 2006.

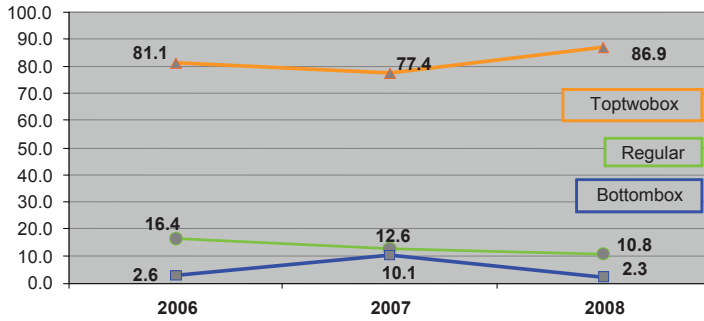
In 2007, the survey was conducted by Gallup Dominicana with a sample error of 4%, between May and July of that year.

In 2008, MKT Consulting conducted the survey with a sample error of 5%, between February and March of 2009.

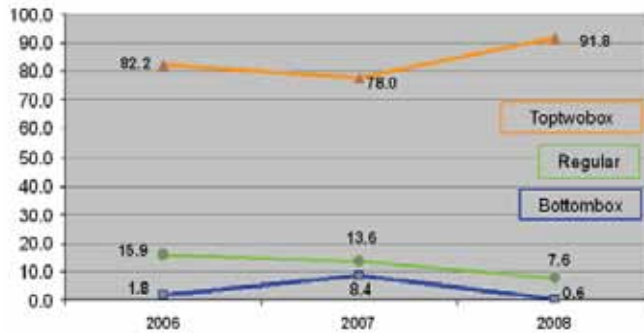
At this time, the firm Alpha Consulting is conducting a survey whose results will be shown in the May presentation.

CREDIBILITY

Toptwobox, Bottombox trends and Neutral (Regular) Zone



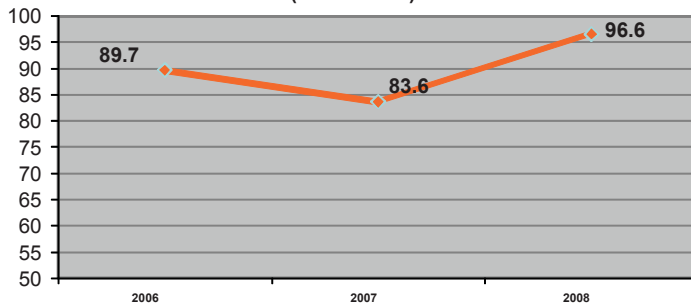
Tendencia Toptwobox, Bottombox y Zona Neutral (Regular)

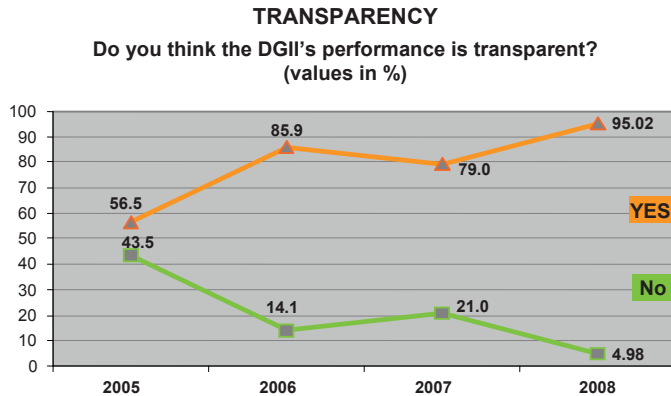


Inquired on whether they trusted the DGII and consider it a transparent institution, the respondents answered as follows:

TRUST

Level of trust on the DGII, positive answers (values in %)





One indicator on how the citizens perceive the DGII's performance regarding accountability is the publication by the non-governmental or non-partisan organization Participación Ciudadana (PC)⁶ of the Transparency ranking, conducted in November 2009.

This study is intended to determine the degree of applicability and/or compliance with the Law on Free Access to Information (Act 200-04) by Dominican public institutions.

More specifically, it is aimed at:

- Verifying the constitution of Information Access Offices (OAI) and the appointment of Information Access Responsible (RAI, in Spanish) at public institutions.
- Assessing the level of availability of official information on the webpages of public institutions, pursuant to Section 3 of the Act 200-04 and Section 7 of its regulations.
- Verifying the level of responsiveness of public institutions to the requests made by individuals, as well as of non-governmental institutions within the frame of the Act 200-04.
- Assessing the procedures implemented in the assessed public institutions, for the purposes of the application of the Act on Free Access to Information.
- Comparing the level of applicability of Act 200-04, among the diverse public institutions evaluated.

⁶ *Participación Ciudadana [citizens' engagement] defines itself as a civic, non-partisan movement that advocates, coordinates and links the social ambit with the public branches. It was constituted to promote the articulation inside the civil society and encourage the engagement of citizens with a view to achieving the political, institutional and democratic reforms required by the republic and a fair and balanced social development. It is the most prestigious and influential organization of this type in the Dominican Republic.*

The study evaluates the transparency information on websites and the OAI. From this result a grade by category is derived, which ranges from A (greater compliance) to F (worse compliance).

The Direct Observation Registration File used by the PC for the webpage study grouped the observations around the following points:

- Availability of official information on webpages
- Updated information on webpages
- Overall information on the institution
- Regulatory information
- Information on officers and employees
- Ongoing and updated information services

In the case of the OAI, the following is evaluated⁷:

Allocation of value by indicator			
No	Indicator	Relative value	Weighted value %
1	Availability of official information	100	50%
2	Response to information request	100	30%
3	OAI's structure and resources	100	10%
4	Information Access Responsible	100	10%

In this last study, the General Directorate of Internal Revenue was classified under the A category, which is indicative of an efficient application and/or compliance with Act 200-04 on Free Access to Public Information, with a score of 92.2 out of 100, placing itself among the best 10.

Of a total of 85 institutions evaluated, only eight, i.e., 9.4%, were classified under the A category.

TO CONCLUDE

Providing effective information mechanisms implying the timely publication of data on DGII's performance, in anticipation of the citizens-taxpayers' requests, has been our strategy in the area of accountability. The data is put at the disposal of society with a view that the perception of this organization should be based also on the analysis

⁷ *The official information is the information that can be accessed without any request.*

of the information on the performance of each one of the processes we execute: administrative management and tax management processes.

In this sense, we are content with the results obtained so far, which we have shown as deriving from the results of surveys and analyses conducted by civil society organizations.