



46th CIAT General Assembly

“Improving the Performance
of the Tax Administration:
Evasion Control and Taxpayer
Assistance”



Santiago, Chile
April 23 – 26, 2012

**Inter-American Center of Tax Administrations – CIAT
Servicio de Impuestos Internos – SII**

46th CIAT GENERAL ASSEMBLY



**IMPROVING THE PERFORMANCE OF THE TAX
ADMINISTRATION: EVASION CONTROL AND TAXPAYER
ASSISTANCE**

**Santiago, Chile
April 23 – 26, 2012**



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Inter-American Center of Tax Administrations - CIAT
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INDEX

Presentation on CIAT iii

INAUGURAL CONFERENCE

TOPIC 1 THE USE OF INFORMATION AND COMMUNICATION TECHNOLOGIES TO IMPROVE PERFORMANCE AND FACILITATE COMPLIANCE

Lecture

TOPIC 1 The use of Information and Communication Technologies to improve Performance and facilitate Compliance. Julio Pereira Gandarillas, Director, Internal Revenue Service (Chile)..... 3

Case Studies

TOPIC 1.1 e-Facilitation of Compliance: Taxpayer services via Internet. Beatriz Gloria Viana Miguel, General Director, State Agency of Tax Administration (Spain) 29

TOPIC 1.1 e-Facilitation of Compliance: Taxpayer services via Internet. Sue Wormington, Director General, Horizontal Integration Division, Canada Revenue Agency (Canada)..... 55

TOPIC 1.1 e-Facilitation of Compliance: Taxpayer services via Internet. Alain Lelouey, Head of the Copernic IT Program, General Directorate of Public Finances, (France)..... 81

ÍNDICE

TOPIC 1.2	e-Control of noncompliance. Germania Montás, Deputy Director General, General Director of Internal Taxes (Dominican Republic)	89
TOPIC 1.2	e-Control of noncompliance. Marian Bette, Senior Policy Advisor, Tax and Customs Administration (The Netherlands)	103
TOPIC 1.2	e-Control of noncompliance. Julio Pereira Gandarillas, Director, Internal Revenue Service (Chile)	117
TOPIC 1.3	e-Cooperation: Information technologies that may allow for exchanging information between national and international entities. Frank Van Driessche, Tax Administration and Fight Against Fiscal Fraud, Directorate General for Taxation and the Customs Union (European Commission)	133
TOPIC 1.3	e-Cooperation: Information technologies that may allow for exchanging information between national and international entities. Carlos Alberto Barreto, Secretary, Secretariat of Federal Revenues (Brazil).....	147
TOPIC 1.3	e-Cooperation: Information technologies that may allow for exchanging information between national and international entities. Sergio Mujica, Deputy Secretary General (World Customs Organization - WCO).....	153
TOPIC 2	SATISFACTION AND QUALITY OF SERVICE PROVIDED BY THE TAX ADMINISTRATION TO THE TAXPAYER	
	<i>Case Studies</i>	
TOPIC 2.1	Mechanisms for measuring the Quality of Service provided to the taxpayer and results achieved. Vilhelm Andersson, Deputy Director General, Swedish Tax Agency (Sweden)	167

ÍNDICE

TOPIC 2.2	Mechanisms implemented for assisting taxpayers in remote geographical areas. Raju Budhia, Group Manager, Corporate Risk and Assurance, Inland Revenue (New Zealand)	175
TOPIC 2.2	Mechanisms implemented for assisting taxpayers in remote geographical areas. Carlos Marx Carrasco, General Director, Internal Revenue Service (Ecuador).....	193
TOPIC 2.3	Strategies aimed at improving the Quality of the Service. Douglas O'donnell, Assistant Deputy Commissioner (IRS, U.S.A.).....	205
TOPIC 2.3	Strategies aimed at improving the Quality of the Service. José Antonio de Azevedo Pereira, Director General of Revenue, Tax Customs Authority (Portugal).....	229
TOPIC 3	MEASUREMENT OF VAT AND INCOME TAX EVASION BY INDIVIDUAL AND CORPORATE TAXPAYERS	
<i>Lecture</i>		
TOPIC 3	Measurement of VAT and Income Tax evasion by individual and corporate taxpayers. Julio Pereira Gandarillas, Director, Internal Revenue Service (Chile)	239
TOPIC 3.1	Methodologies for estimating income tax and VAT evasion. Fernando Vidal Flecha Arrua, General Director of Tax Examination (Paraguay).....	261
TOPIC 3.3	Design of plans for controlling evasion and indicators of management results. Carlos Sánchez, Director General, Social Security Resources, Federal Administration of Public Revenues (Argentina)....	269

TOPIC 3.3	Design of plans for controlling evasion and indicators of management results. Juan Ricardo Ortega, General Director, Tax and Customs Directorate (Colombia)	295
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Closing Session

Technical Program	305
List of Participants	315

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Santiago, Chile
April 23 to 26, 2012

TOPIC 1

**THE USE OF INFORMATION AND COMMUNICATION
TECHNOLOGIES TO IMPROVE PERFORMANCE AND
FACILITATE COMPLIANCE**

THE USE OF INFORMATION AND COMMUNICATION TECHNOLOGIES TO IMPROVE PERFORMANCE AND FACILITATE COMPLIANCE

Julio Pereira Gandarillas
Director
Internal Revenue Service
(Chile)

***Contents:** Executive summary – 1. General context of the use of information technologies in Chile.- 2. Situation of internet in Chile.- 3. Electronic invoice: the model to be followed.- 4. Electronic invoice in Chile.- 5. 100% Electronic invoice - New SII business model.- 6. Conclusions*

EXECUTIVE SUMMARY

Ensuring the application of the electronic invoice to 100% of taxpayers will generate positive effects for the entire country, with estimated savings of US\$300 million¹. It will strengthen and improve electronic commerce, promote productivity increases and competitiveness in the companies, reduce invoicing costs, generate a positive environmental impact, since there will be less felling of trees and around 2 million liters of water would be saved. In the case of the taxpayer, the process for authorizing invoices will be simplified, warehouses for the physical storage of invoices will disappear and furthermore, since the Internal Revenue Service (SII, Spanish acronym) will have available all the purchase and sale information, it will be in a position to generate for all taxpayers a draft VAT return. Finally, ensuring that 100% of taxpayers operate with the electronic invoice will allow the SII to be more efficient in the examination of VAT, since it reduces the possibility of false tax documents, strengthen the control of tax documents, favors a more consistent control among different taxes and likewise allows for massive information crosschecks between the taxpayers purchase and sale records.

¹ 2004 Santiago Chamber of Commerce Study.

In order to arrive at the foregoing situation, it is necessary that the country count on a digital economy with the groundwork required so that the implementation of a project with these characteristics may operate successfully. Therefore, it is necessary to review the introduction of electronic commerce, the telecommunications structure, software and services. The analysis carried out indicates that there has been a 38% increase in electronic commerce from 2008 to 2010, where 97% correspond to B2B transactions.

The rate of penetration of cellular phones in the homes is 399%, with economic plans for Smartphone of around US\$34. The access to Internet is approximately 52%, and the percentage of businesses with Internet was 88% by the year 2010.

To this it may be added that the greater part of services and procedures at the SII are carried out through the virtual Platform. For example: 98.8% of income returns, 72% of VAT returns, 90% of VAT payments are received via Internet, as well as 76% of initiation of activities and 75% of closing of businesses. In particular, with respect to the current status of electronic invoicing, 44% of the country's invoicing is done electronically.

All these data evidence that the country is technologically prepared for adopting a model whereby 100% of taxpayers operate with electronic invoice.

GENERAL BACKGROUND

1. General context of the use of Information Technologies in Chile

The incorporation of information and communication technologies (ICT) in current society has resulted in their customary and daily use, at the personal as well as business levels.

In this context, the digital economy in Chile has significantly increased in the past 10 years. In particular, in the year 2010, it exceeded US\$32,200 million which represented a 37% increase with respect to the year 2008. This increase, promoted –among other things- by the dynamism of electronic commerce and mobile communications, exceeds the 5% growth of GDP in the period between 2008 and 2010.

According to the methodology used by the Santiago Chamber of Commerce (CCS –Spanish acronym), the Digital Economy consists of three levels: infrastructure, software and services; telecommunications and electronic commerce which are explained as follows:

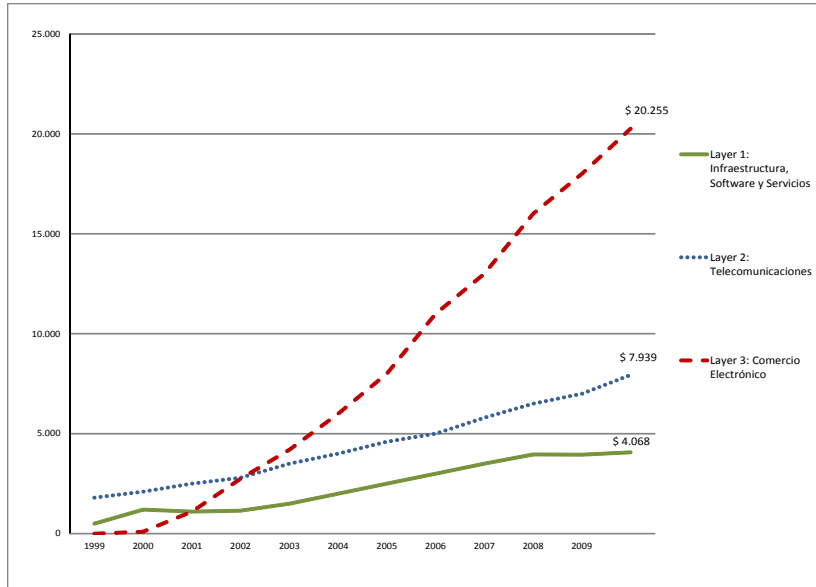
- Infrastructure, software and services: Everything related to connectivity networks, hardware devices, operational systems, personal productivity suites, navigators and Messenger and collaboration applications, data base administrators, development and integration tools, administrative information systems, management planning resources, electronic commerce platforms, electronic means of payment, certification and digital signature services, hardware and software maintenance, among others.
- Telecommunications: Mainly includes local telephone, long distance, mobile communications and data services.
- Electronic Commerce: Corresponds to such transactions as B2B (Business to Business), between businesses and institutions (B2G) (such as Government) and between businesses and consumers (B2C).

To estimate each component, the sales amount of the economic transactions of each one is quantified. It must be borne in mind that this does not correspond to the calculation of value added as in the case of GDP, but rather to the total value of the transactions. In the case of electronic commerce, this involves transactions from several sectors, but only includes sales done electronically.

The particular analysis of each delivery component shows that electronic commerce produced the largest amounts of transactions, with operations of approximately US\$ 20,255 million, or 39% above the figure for 2008. Most of these operations correspond to trade between businesses and public purchases. These transactions, grouped as B2B trade by the CCS, corresponded to US\$ 19,669 million which represent 97% of the amount of the transactions. The sales to end consumers (B2C of goods and services) would have been around US\$ 586 million, a 54% increase with respect to the year 2008. The telecommunications component, on the other hand, amounted to a figure close to US\$ 7.939 million, headed by emerging sectors, such as high bandwidth and mobile communications. The infrastructure, software and services segment, on its part, totaled estimated transactions of US\$ 5.867 million. Some of the models

that have experienced speedy growth in the past year are electronic banking, wireless connectivity and the mobile telephone system.

Graph 1: Evolution of the digital economy Billions of US\$.



Source: *The digital economy in Chile 2011*, George Lever – Santiago Chamber of Commerce.

The introduction of the mobile services

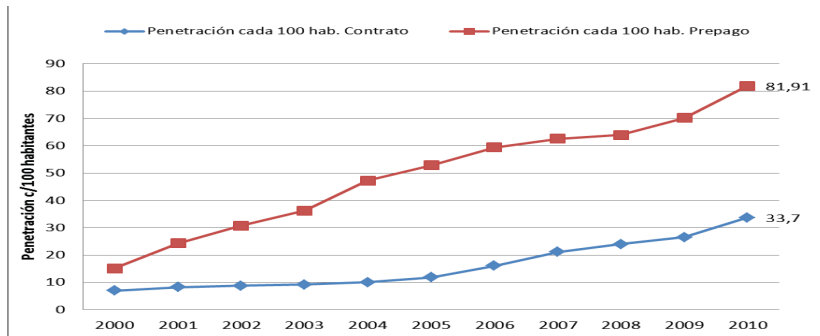
In many developing countries, the prepaid mobile high bandwidth services are spreading very rapidly and Internet users are switching from fixed connections and devices to wireless ones, which is being influenced by the emergence of new mobile equipment, such as Smartphones and Tablets which are accelerating this process².

In recent years, the mobile high bandwidth technologies are performing an ever more important role in the transition to high bandwidth. In fact, the number of subscriptions to the mobile high bandwidth exceeded that of subscriptions to high bandwidth in 2008 and by late 2010; over 150 countries had mobile high bandwidth services. Projections indicate that soon 3G services will be available in all the countries.

² *Measurement of the information society, year 2011*, prepared by the International Telecommunications Union ITU.

In Chile, the mobile telephone service has exceeded the 100% level of users, with 19.852.242 subscribers at the national level and with a 399%3 penetrations at the home level.

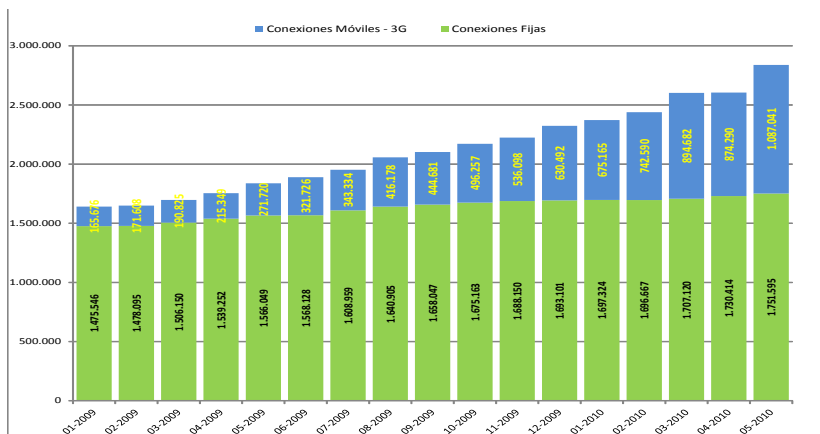
Graph 2: Penetration of cellular phones according to Plan type 2000 - 2010.



Source: Subtel, year 2010

The foregoing, together with the increase in 3G mobile connections will in turn allow the increase in B2C trade. Procedures through e-banking or with other public institutions such as: generation of certificates, payment of taxes, processing, among others will continue their massive increase and the platform will be the great means of communication between persons and Public or Private Institutions.

Graph 3: Evolution in the type of connections 2009 -2010.



Source: Subtel year 2010

TOPIC 1 (Chile)

Added to the penetration of the cellular telephone system, the increase in 3G connections is the fact that the price of the Smartphone has been decreasing in recent years.

Company	Equipment	Cost of Equipment (USD)	Cost of monthly contract (USD)	Minutes	Traffic Quota (MB)	Downloading Speed (Kbps)
Movistar	ZTE MF30	57,8	34,6	85	250	700 Kbps
Movistar	Samsung Galaxy 5	0	35,7	85	250	700 Kbps
Movistar	LG Optimus Me	0	35,7	85	250	700 Kbps
Entel	Blackberry 9390	0	41,6	85	250	700 Kbps
Movistar	Samsung Galaxy 5	0	50,3	200	600	700 Kbps
Movistar	Samsung Galaxy 5	0	50,3	200	600	700 Kbps
Entel	Blackberry 9391	0	52,2	200	600	700 Kbps
Movistar	Blackberry Curve	0	54,1	140	400	700 Kbps

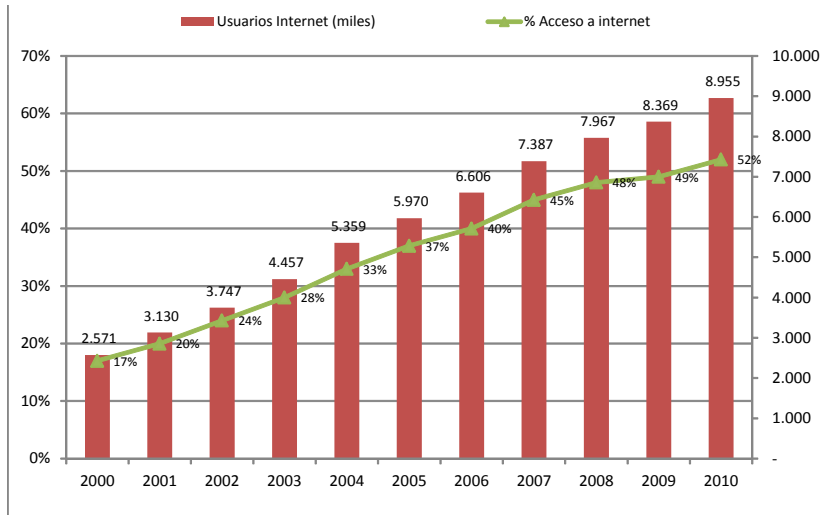
Source: Market study, March 2012.

Rate of exchange at December 2011, ChP\$517

The table shows that an inexpensive Smartphone may be obtained for \$18.000 Chilean pesos monthly (35 \$USD) with 85 minutes, 250 MB traffic and 700 Kbps downloading speed. The foregoing is relevant if one considers that a micro, small or medium-sized company could carry out all commercial and tax procedures via its telephone without the need for a physical office.

2. SITUATION OF INTERNET IN CHILE

In the year 2010, 52% of the Chilean population was already connected to the network. The rate of growth of Internet users has been increasing between 3 and 4 percentage points per year since 2000. Such increase is mainly due to two causes: first, the incorporation of the young population to the network, while the older users have remained relatively constant. Secondly, the massive inclusion of disregarded socioeconomic sectors that have been joining this digital revolution, thanks to the government's literacy programs, the continuous decrease in prices of computer equipment, access to Internet and the natural trend toward the adoption of Internet as a result of globalization.

Graph 4: Internet Users and percentage of access 2000 – 2010.

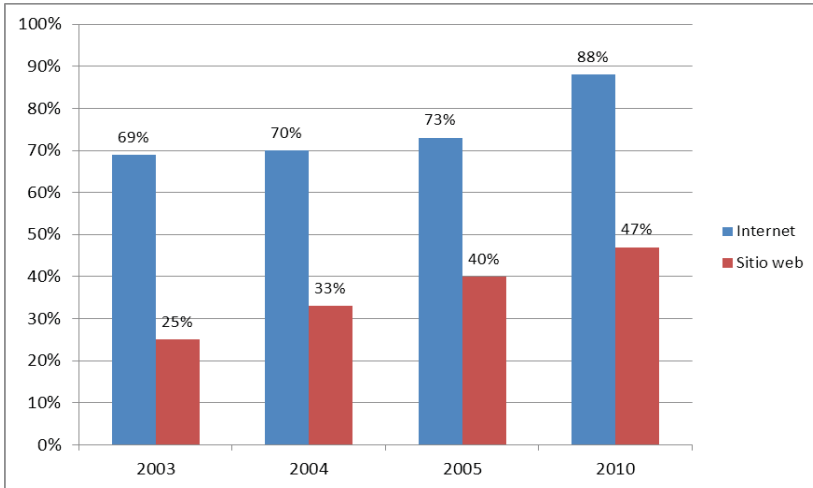
Source: Subtel, year 2010.

Although Internet's penetration in Chile has been increasing, the main gap still existing is between persons with basic education and those with higher education. This gap is the expression of several phenomena. On the one hand, the latter have more revenues for having a computer in their own homes and paying for an Internet connection and, in addition, most probably they have jobs in the service industries of the economy, where there is a more frequent use of Internet. On the other hand, the educational gap is directly related to the knowledge or skills which individuals have for using the ICTs, for which reason, non-access to high school education almost completely limits the possibilities for using Internet (Herrera, M. S., 2006).

Internet in the companies

At the level of companies, there has been progress in the use of the computer as well as Internet since 2008 and this goes in line with the progress of the digital economy in the country.

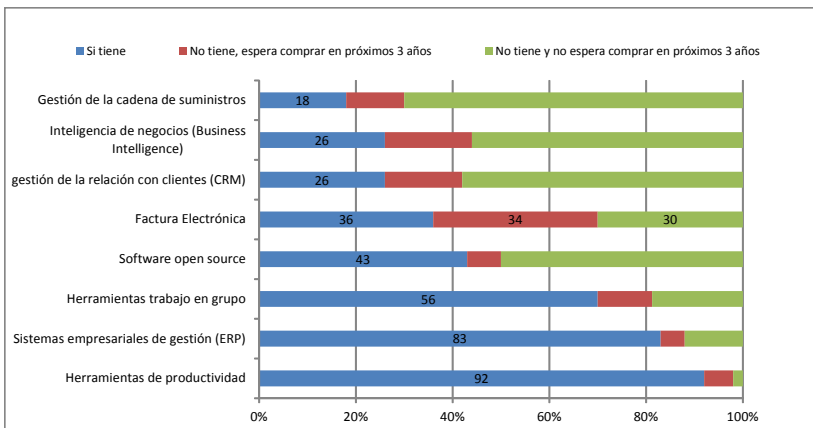
Graph 5: Percentage of Internet and Web site in the companies.



Source: *The digital economy in Chile 2011*, George Lever – Santiago Chamber of Commerce

The above is also reflected in the types of software used in large companies and the existing projection toward acquiring some more specific ones, such as electronic invoice, which according to the study by George Lever – CCS, is expected to reach 70% of the large companies in 2013.

Graph 6: Level of technology in the companies.



Source: *The digital economy in Chile 2011*, George Lever – Santiago Chamber of Commerce

As additional data it is said that the greater number of procedures carried out by companies with the Internal Revenue Service is via Internet. Shown below are some statistics of procedures and processes carried out by the taxpayer through the Service's Web platform in 2011:

- Income Operation Process
 - o 98.8% of returns filed
 - o 57.4% of amended returns submitted by the taxpayers
 - o 100% of sworn returns sent by the taxpayers
- VAT Operation Process
 - o 72% of returns filed
 - o 90% of VAT payment
- Procedures
 - o Most visited site of the State
 - o 76% of initiation of activities and 75% of termination of business
 - o 1.037.000 taxpayers issued electronic fee receipts
- Electronic invoice
 - o 44% of the country's invoicing is done electronically

3. ELECTRONIC INVOICE: THE MODEL TO BE FOLLOWED

SII's Technological developments in the area of taxpayer services

As previously stated, electronic commerce provides a series of benefits by eliminating some barriers existing in traditional business; such as, expanding the areas of action between the participants in the transactions, eliminating transaction costs, reducing geographical and temporary limitations, etc. This new form of operation and coordination, through computerized platforms, in turn, brings with it a series of challenges for the examination entities of the tax administrations, as regards the greater difficulty for individualizing the participants in electronic commerce operations, and obtaining data relative to the transactions (amounts, dates, types of goods and services exchanged, prices, domiciles of the participants, etc.) which information is critical for carrying out their examination functions.

In this environment, the SII has been one of the pioneers at the national and world level, in some cases, such as in the filing of returns via Internet, in developing products and services for taxpayers through Internet, which measures are aimed, on the one hand, at facilitating

taxpayer compliance with tax obligations by providing more and better electronic services; and on the other, the adoption of measures for controlling said operations. In this context, the following initiatives are worth highlighting:

On-Line Tax Life Cycle

The taxpayer has been offered the possibility of electronically carrying out procedures for each of the different stages of its economic activity (initiation of activities, termination of business) thereby promoting voluntary compliance.

Electronic filing of third-party information (sworn returns)

This is third-party information that is submitted to the SII, on individuals as well as businesses, reporting about revenues, franchises, credits and, in general, different background information that is required to compare it with the information provided by the taxpayers, through the tax returns or the request for refund. There are over 70 sworn returns, by type of taxes: Income, VAT, VAT Exporter and Stamp Tax, which are submitted to the SII through Internet and in standard formats established through resolutions that compel the taxpayer to file them.

Taxpayer identification instruments

The taxpayer file, the Secret Code and alternatively, the digital certificates are instruments established so that the taxpayers may identify themselves at the SII's Web site and carry out their tax procedures at the SII's Virtual Office in a private and safe manner.

Filing and payment of taxes by Internet

Services have been provided so that the taxpayers may declare and pay through Internet, the annual income taxes, monthly taxes such as VAT, as well as prepare their sworn returns with obligatory information which they must submit to the SII. On the other hand, foreign investors may credit their taxes paid in Chile via Internet.

In addition, the SII has available for taxpayers in its Web site, a Draft Income Tax Return. In this way, in the past 10 years this Administration has achieved a significant impact in the simplification of tax compliance and the reduction of compliance costs.

Since October 2011, there is a new payment alternative for taxpayers filing Form 50 on additional taxes. Payment is made through a payment coupon obtained when filing by Internet and which is subsequently paid at the Bank. The taxpayer files a draft return through Internet and prints the coupon to make payment at the bank. The latter entity sends the information on-line to the SII and when the SII receives this confirmation of payment, the tax is considered filed. This allows for eliminating digitizing errors and processing times, likewise permitting massive information crosschecks in order to carry out examinations within shorter time frames than the current ones. This process became operational since February of this year for taxpayers who use Form 29 for the monthly filing and payment of VAT.

Electronic Invoice

In operation since 2002, its use affords tax validity to commercial transactions carried out through electronically generated documents with a significant savings of resources as compared to those physically issued.

Mipyme Portal

The Mipyme Portal was established as a public-private alliance and is part of a project that endeavors to promote the management of micro, small and medium businesses (Mipyme) as well as their tax compliance. In this portal, taxpayers may operate with an ad-hoc electronic invoice and accounting system for them.

Electronic Fee Receipt (BHE –Spanish acronym).

The Electronic Fee Receipt has the same legal and regulatory effects as a fee receipt issued manually.

Electronic Accounting Records

A taxpayer keeping accounting records in a digital means and who prints the Journal and the Ledger on paper stamped by the SII, may be authorized not to print them, but rather to generate them, for tax purposes, in an electronic format that has been established by the SII. Once authorized, he must:

- Send on a monthly basis the Purchase and Sales Journals in digital format.

- Annually send a digital summary of the journals issued.
- Keep the Accounting Records (Journal and Ledger) complete, in digital format, with the necessary support to guarantee their security.

Other Relevant Services.

- The Payment of Real Estate Contributions ((BBRR-Spanish acronym) by Internet: allows owners of a real estate to pay their contributions on-line, in addition to being able to request a Valuation certificate for their Real Estate.
- Electronic invoice of internal sale and export.
- Electronic receipts of purchases and services: Authorization of paper for cash registers.
- System for Paying taxes via Internet. The system allows for paying income taxes, Value Added Tax (VAT), real estate contributions and amounts determined by the TA for differences in taxes and fines.
- Delivery of Certificates of residence and tax situation to foreign investors.

4. ELECTRONIC INVOICE IN CHILE

In Chile, the Internal Revenue Service determined the model and operational standards, agreed on the formats with the industry and promoted its implementation starting in 2002, beginning with a pilot plan with eight businesses and today, it may be said with satisfaction, that in 2011, 195 million electronic tax documents were issued and to that date, 40 thousand businesses were authorized to issue electronic invoices, with the invoicing of these companies representing, 44% of total invoices issued in the country.

Undoubtedly through this system the SII has been able to facilitate taxpayer compliance, its recovery processes as well as favor the examination processes.

In its implementation, Chile opted for using digital certificates and electronic signatures³ as method for authenticating the issuers and ensuring the integrity of the documents. With respect to normative aspects, the corresponding regulations were determined, in accordance with the powers which the tax regulation affords the Director, in order

³ Chile has in force the Electronic Signature law which sets the bases for regulating the rights and duties of agents that operate through Internet, thereby affording legal recognition to the electronic documents and delimiting the legal sphere of their use.

to allow the use of the electronic invoice and replace paper with technological means. The objective maintained was to implement a system for using electronic invoicing within the legal framework in force in the country, while protecting the fiscal interest.

Starting in 2005, the SII's Electronic Invoicing System was extended to the MIPYMEs (Micro, Small and Medium Businesses) offering them a free service in order to provide MIPYME taxpayers a basic functionality whereby they could issue and manage electronic invoices and, in general, comply with the regulations which the SII has established for taxpayers authorized to use the electronic invoice.

Taxpayers authorized to operate in the system must request the ranges of folios of the documents required for the issuance. This is done through Internet and the authorization is given, for the range of the type of document requested, by means of a file that can be downloaded from the SII's Web page.

In addition, on implementing the system, the taxpayers send every month their electronic information on purchase and sales (Purchase and Sales Journals) in electronic format, thereby being exempted from keeping this information in printed format. There is also the possibility of including other accounting and auxiliary records in electronic format, such as the Journal, Ledger, Balance, etc. An annual summary of these books with digital signature must be sent to the SII and the latter reserves the right to request them in detail.

It was decided to use documents with XML format, standardized and electronically signed. The fact of having a standard electronic invoice format allows taxpayers to automate their invoicing processes, not only in the issuance but also the receipt of electronic documents, which constitutes a great advantage.

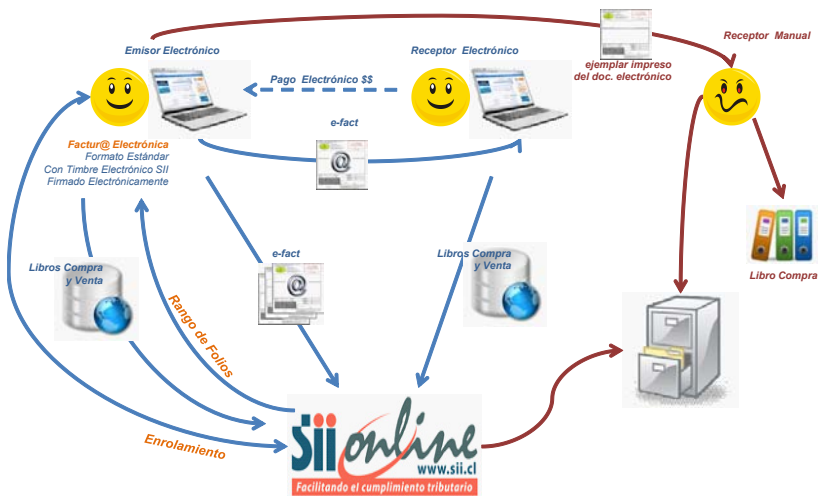
The SII opted for receiving all electronic invoices and their associated documents. In this way, the taxpayer issues the documents, sends them to the SII and in parallel, delivers them to its customer. Additionally, taxpayers participating in the system are exempt from filing some returns that are obligatory for other taxpayers, in consideration of the fact that they periodically provide the SII their purchase and sales information.

It was established that the basic communication platform for transmitting electronic invoicing documents is the electronic mail. However, to two

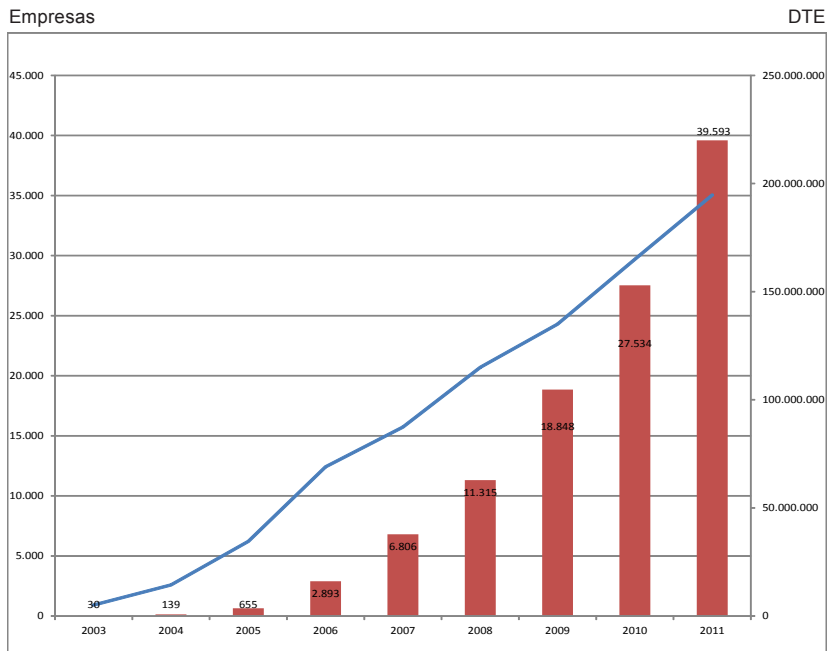
taxpayers participating in the system or a group of them, may agree on a different platform for the exchange of documents.

The SII allows authorized taxpayers to make several inquiries in the Electronic Invoicing System, as well as automatic Web services for verifying the validity and contents of the electronic documents. These do not display all the data on the invoice, but only the confirmation that it has been received and validated at the SII, based on its relevant data, thereby permitting to ensure its validity and transmitting trust to the taxpayer receiving the document.

Figure 1: Electronic invoice operating scheme.



Graph 7: Electronic billing clerks and electronic tax documents 2003 - 2011.



Mipyme Portal

The Mipyme Portal, available in the web platform, gathers in a single site all the free applications for the Micro and Small businesses, as well as all the information required by this segment to promote and develop their business.

The systems available in the Mipyme Portal involve no cost for businesses fulfilling the requirements. The only cost is related to the need of counting on a digital certificate, whose market value for an annual term is approximately \$10 thousand. In addition to the tax requisites, it is necessary to have access to a computer with Internet connection, a digital certificate and an electronic mailbox to receive the information sent by the SII.

The applications available in the Portal are:

- Mipyme electronic invoice system
- Simplified taxation system
- Complete accounting system
- Mipyme electronic invoice system

Avoids process for authorizing tax documents (stamping) at the SII offices, reduces associated costs and terms for payment of documents, it is free, improves efficiency and the customer/supplier relationship. In addition, allows for deferring the filing and payment of VAT from the 12th to the 20th day of each month.

The entry requisites are: having carried out and keeping in force the process for initiation of activities. It is necessary to qualify as First Category taxpayer, according to the provisions of Article 20 of the Income Tax Law. Not having the capacity of defendant, processed, or, in its case, accused of tax offense, or condemned for this type of offense until full compliance with the sanction. Not exceed 500 million Pesos in sales made in the past 12 months.

Simplified taxation system

It generates a proposal of codes of Form 29 (Monthly VAT Return). Likewise allows for structuring a proposal from Form 22 (Annual Income Tax Return), based on the data which the taxpayer has entered in his Purchase, Sales, Remunerations, Fees, Other Revenues and Other Disbursements Journals from the Simplified Taxation System of the Mipyme Portal. Based on the Journals on Fees and Remunerations, generates the Sworn Income (1887) and Withholdings (1879) Returns, obligatory forms which must be filed by first category taxpayers in March of each year. Allows for generating a simplified financial report, which displays in a structured manner, all the information on revenues and disbursements included in the Simplified Taxation System of the Mipyme Portal.

The requisites for entering in this taxation system are: be admitted in the Simplified Taxation System. Operate with the Mipyme Electronic Invoice System. Not having the capacity of defendant, processed, or, in its case, accused for tax offense, or condemned for this type of offense until complying with the sanction. The taxpayer, the legal representative and the authorized users must be up to date with the tax registration obligations.

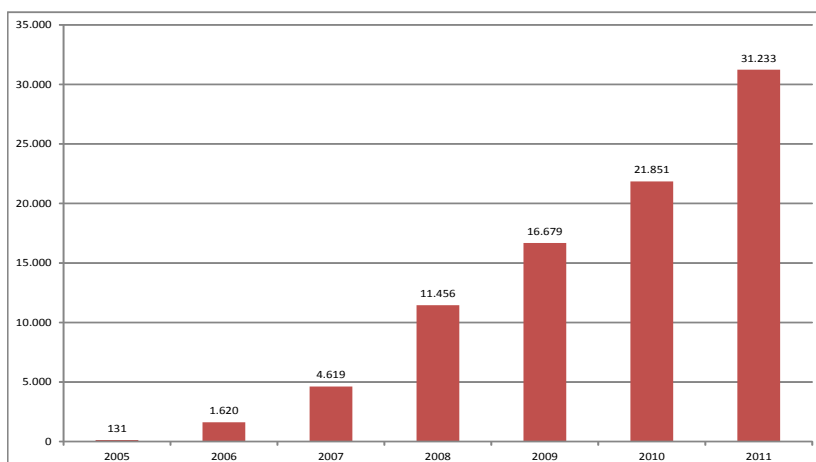
Complete accounting system

This system allows for recording the information related to its commercial transactions in the respective accounting records for complying with its tax obligations. Obtain Financial Statements in any month of the fiscal period (Trial Balance of the Balances of all Accounts, 8-Column General Balance, Classified, Statement of Earnings). Obtain accounting reports and support the assessment of the taxable net Income and the preparation of the FUT registry. Obtain proposals of codes for returns F29 and F 22.

Automatically generate the Sworn Returns on Salaries and Fees. Integrate with other SII electronic systems (for example, Mipyme Electronic Invoice).

The requisites for operating with this system are to have the Initiation of Activities in force, not being subject to the Simplified Taxation System (Art. 14Ter). Not being subject to another Special Taxation System. Be an issuer of electronic tax documents (DTE-Spanish acronym) of the Mipyme Portal. Qualify as First Category taxpayer, as provided in article N° 20 of the Income Tax Law. The Taxpayer and his Legal Representative should have no pending matters with the SII, such as: not located; nontax filer or not responding to summons by this Service. In addition, the taxpayer cannot be established as a stock company.

Graph 8: No. of Registered MIPYME Businesses. Figures as of December 31 of each year.

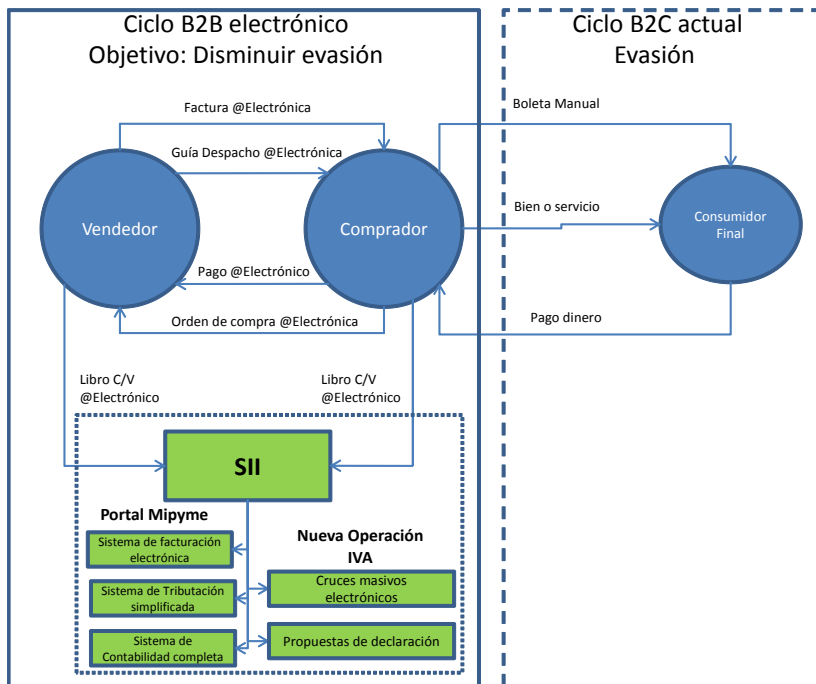


5. 100% ELECTRONIC INVOICE - NEW SII BUSINESS MODEL

An analysis will be made hereunder of how the new scenario (100% of taxpayers operating with electronic invoice) will imply the development of a new business and assistance model which the SII will offer its taxpayers and which will result in a decrease of evasion due the massive controls that will be implemented.

Evasion control model.

Figure 2: Commercial and examination cycle in a 100% electronic invoice model



In a scenario where all taxpayers operate with electronic invoice there would tend to be a drastic reduction of VAT evasion in the B2B business cycle, thereby eliminating the false (material) invoice. There would only be evasion space for the B2C business cycle since the final taxpayer of the chain receives a manual receipt. However, the following actions may be carried out in this cycle for reducing evasion spaces:

- Controls through information crosschecks between the sales journal and the information provided by the Banks with respect to sales with credit cards.
- Control of printing shops that print receipts by providing them an authorization and the latter should report the folios of stamps authorized to each taxpayer.

In the control sphere, the implementation of the computerized systems developed for the New VAT Operation will allow for crosschecking the purchase-sales journals of the taxpayers, in addition to the VAT Exporter requests and the Sworn returns on change of subject, thereby eliminating the face-to-face examination made to taxpayers with respect to the verification of documents and the control of purchase-sales journals, since this will be done through massive computerized crosscheck information processes. The foregoing will also allow for presenting to the taxpayer a monthly draft VAT return. In addition to optimizing the control of taxes and taxpayer benefits in relation to the VAT operation, the adoption of 100% electronic invoice will afford additional benefits such as, for example, in the initiation of activities of a taxpayer by eliminating the verification of activities in situ⁴ (VAT) for first category taxpayers, it will no longer be necessary to verify the deed, among other procedures. This will facilitate the undertaking and the time required for initiating a business will be drastically reduced.

The operational model proposes that once the invoice is accepted, it should be entered in the accounts by the taxpayer, which implies that the supplier as well as the customer must accept the invoices on-line. In this way, the SII with the debit information from the supplier and the credits from the customer makes a double check and subsequently the taxpayers' purchase-sales journals are structured.

This model forces the declaration of debits and credits due to the pressure exercised among individuals (supplier-customer) throughout the commercial flow chain.

New assistance model in the Regional Directorates

Considering that in this new scenario ever less taxpayers must visit the SII offices for carrying out their procedures, since they may all be solved through the web, the new SII operational model must be

⁴ *The verification of the activity is an evaluation of the background information provided by the taxpayer and that kept by the SII in its files, for the purpose of satisfactorily determining that the taxpayer will actually carry out the declared activity. The verification of the activity may include an in situ visit, if the pertinent evaluation is not satisfactory.*

adapted to this change. For this purpose, it may begin gradually assigning the officials who work in the Assistance Platform functions, for example: Stamping, Initiation of Activities, Closing of businesses, Administrative Request, among others; to examination tasks thereby strengthening the audits and reducing the number of officials in assistance tasks. This is possible, as has been indicated, given that 100% of the procedures may be carried out through Internet and the SII will have the taxpayer information for making verifications at the central level without requiring the taxpayer's presence. If the SII were to find differences or objections in the information provided by the taxpayer, the latter may solve it or provide new information through the Internet platform and only if the taxpayer would refuse to voluntarily rectify through the Web page the observations detected by the SII, the latter will summon him to the Regional Directorate and whenever necessary, will proceed to the corresponding examination.

The foregoing will allow, that with the new model, the former Information-Assistance and Attention areas may tend to merge in a single Information and Assistance area, thereby strengthening the examination areas, and resulting in the generation of new controls and accordingly, an increase in the generation of audits and their yields.

The electronic invoice and its contribution to the country's economic development.

The massive implementation of the electronic invoice will have significant impacts on various spheres of economic activity, such as, for example:

- **Will significantly reduce the invoicing costs and promote increases in business productivity and competitiveness.** Every year, the SII authorizes the use of some 300 million invoices; of which large taxpayers issue approximately the half of this total. The complete invoicing process of a business, from the preparation and printing and up to receipt by the final addressee of the paper invoice, has an average cost in the country of one dollar. With electronic invoicing, said cost will be reduced to approximately one third. In a scenario of complete adoption of the system, a 2004 Study of the Santiago Chamber of Commerce estimated a total annual savings for the country of US\$ 300 million; that is, one half point of the GDP.⁵

⁵ This same study ("Perspectives of the electronic invoice in Chile", Santiago Chamber of Commerce, January 2003), quotes a research by the Institute of Management and

- **Will strengthen the modernization of the businesses.** Electronic invoicing will also render possible the reconsideration of business practices within the businesses and among businesses, based on the automation of functions with a minimum flow of papers. In this case, a simultaneous challenge for taking advantage of these possibilities will be massive electronic payment, to close the electronic invoicing cycle also with an electronic transaction in the payment of the goods or services negotiated.

The tax experience is also useful in this sphere, given that the latest figures of on-line payment of taxes in the SII's Web site show that 90% of total VAT payments are made by Internet and 72% of returns are also filed through this means.

- **Will strengthen and improve electronic commerce.** According to estimates by the Santiago Chamber of Commerce, in 2010 said commerce achieved in our country the record figure of US\$ 20.255 million, mainly of the B2B (Business to Business) type with 97%. These transactions take place between businesses and also public purchases. The electronic invoice, affords legal support to this type of transactions under the same business scheme as the payment. That is, an electronic flow without the need for physical documents.

With electronic invoicing there will be coherence in the flow of businesses and the supporting tax documents, which, added to massive electronic payment, will generate an appropriate space for strengthening electronic commerce in our country, while continuing to strengthen electronic flow as a way of doing business in Chile.

- **Environmental impact of electronic invoicing.** In a world where Corporate Social Responsibility (CSR) acquires ever greater importance, the adoption of an electronic invoicing system has a great impact, especially with respect to environmental responsibility. Moving from the traditional invoice to the electronic invoice has a direct impact on the preservation of forests, use of hydric resources and energy savings. In the case of Chile, a traditional invoice must have four copies: for the customer, the SII, tax control and executive-transferable collection. Currently, with the implementation of electronic invoicing, companies must only print 3 copies of the invoice (the necessary ones in the transportation

Administration of the United States (IOMA), for a sample of 500 businesses, where it is evidenced that 8.2% attribute their increase in productivity to the incorporation of the electronic invoice in the issuance of tax documents.

of goods). If there is a trend toward having 100% of taxpayers operating with electronic invoice, the control of these documents would be electronic.

In this way, the study of the Santiago Chamber of Commerce on “Electronic invoice in 2008 – 2009”, estimates in average the savings in trees, water and energy from digitalizing the entire logistic chain. Under the assumption that all businesses that invoice electronically have fully abandoned traditional invoice and there is no need to print 3 copies of the invoice, the annual savings in trees would amount to 31.683 trees, 2.138.550 liters of water if no invoice were printed.

Electronic invoice and its role of tax compliance facilitator

- **Simplifies the authorization to use invoices.** Up till now, businesses must request authorization from the SII, prior to issuing its paper invoices. This implies the previous printing and authorization, registration and physical stamping at the SII. This is replaced with an electronic register that authorizes the taxpayers to issue electronic tax documents and assigns ranges of folios of documents to be issued electronically, all through the SII’s Web site (www.sii.cl).
- **Simplifies the storage of invoices.** Tax regulations require that invoices issued by companies be kept for six years, which implies counting on an entire storage logistics for having access to said documents if they are thus required, with the associated costs of those systems. Electronic invoicing eliminates the need for physical supports on paper of electronically issued documents. By default, it also eliminates the risk of loss of tax documents.
- **Simplifies compliance with other tax obligations.** The business process may be directly based on electronic invoicing, which will allow an accounting management, especially with respect to VAT, in harmony with the general accounting systems of the businesses, since they will directly arise in the business cycle without the need for additional parallel systems.
- **Draft VAT return.** In a system where 100% of the taxpayers operate with electronic invoice and with the declarations of change of subject received electronically, the Service is able to prepare a draft return based on the information obtained from the suppliers

and customers. The foregoing will facilitate the declaration of this tax.

- **Verification of the validity of Electronic Invoice, through the SII's Web site.** The taxpayer may verify on line if its customer or supplier's invoices are in order.

Electronic invoice and its role in tax control

The electronic invoice strengthens the examination control of taxes in Chile and the struggle against unfair competition of certain agents who use, for example, false invoices to obtain advantages in the business. In fact, the documents generated in the business cycles of enterprises are electronically registered in the Service's computerized systems, thus affording the taxpayers security with respect to their tax documents, while facilitating the examination strategies applied with respect to the correct payment of taxes. In this perspective it:

- **Reduces the possibilities of false tax documents:** The support of information from agents authorized to operate with electronic invoicing and of the documents which these agents issue, allows for making available to all taxpayers, applications for consulting the Service's Web site, with a view to verifying the documents issued by the taxpayers and the authorizations given for such issuance.
- **Strengthens the control of tax documents:** Tax compliance is materialized in the documents which taxpayers use for supporting its activities. Electronic invoicing allows the Service to have "copies" of the electronic documents which support the commercial transactions materialized through this means. Thus, the control of the documents which the taxpayers include in their tax returns, especially in the case of VAT, is verified with greater precision by the Service.
- **Promotes a more consistent control among different taxes.** This is particularly relevant in the relationship existing between Income Tax and VAT, where the latter constitutes the basis of the former one. Accordingly, the best timeliness and veracity which electronic invoicing grants to the effectiveness of the operations, should result in a more coherent control between VAT, which is a tax on transactions and income tax.

- **Massive information crosschecks:** Since the SII has all the information from the purchase and sales journals of customers and suppliers, it may undertake massive information crosschecks of these journals, in such a way as to detect inconsistencies between credits and debits reported by the taxpayers. (for more information, see New VAT Operation).

6. CONCLUSIONS

Making massive use of electronic invoice by 100% of taxpayers is a challenge which the SII wishes to achieve, since the benefits are for all of the market players: State, Taxpayers and Tax Administration.

In order to arrive at this massive process, first of all, it is necessary that the country count on technological infrastructure, as regards the development of electronic commerce, the use of computers and Access to Internet by businesses and individuals. It also involves the development of the mobile telephone system and 3G connections, considering that there is an ever greater penetration of Smartphones and that their applications continue to increase day by day.

Likewise, the Tax Administration must develop a computerized infrastructure that may withstand large volumes of information, that may allow it to process and store electronic tax documents (ETD) from all taxpayers. It must be considered that, at present with 44% of electronic invoicing with respect to total invoices issued in the country, some 195 million ETDs are received. Along with strong software, it is essential to develop computerized service applications for the taxpayers. In the case of the SII, there has been progress along that path if one considers that there is a 100% on-line tax cycle, 98.8% income returns, 72% of VAT returns and 100% of third party sworn returns are received by Internet, in addition to being the State's site most visited by taxpayers.

In this way, in this national scenario where one discusses the need for a tax reform in order to obtain new resources for the State to thus finance new social programs, promoting and obliging the use of electronic invoice by all taxpayers will bring about as an immediate consequence, the decrease of evasion. Thus, in a country like Chile where VAT evasion in 2009 represented 18%, a decrease in evasion would imply an increase in tax revenues, which could be increased by approximately US\$ 350 million with the decrease of one point in evasion.

Thus, the challenge consists of the massive application of electronic invoice until arriving at 100% of the taxpayer universe. The country is technologically prepared for this and the Tax Administration must count on the computerized infrastructure for receiving all the information, processing it and generating computerized crosschecks in such a way as to perform controls to taxpayers who may be detected with tax differences, which will in turn result in reducing evasion with positive effects for tax revenues.

E-FACILITATION OF COMPLIANCE: TAXPAYER SERVICES VIA INTERNET

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***Contents:** 1. Presentation.- 2. Development of electronic services in the AEAT.- 3. Brief description of the AEAT Internet website.- 4. The electronic site.-5. AEAT staff training.-6 Analysis of the taxpayers opinion.- 7. Further information on electronic administration in the AEAT.- 8. Conclusions*

1. PRESENTATION

The State Tax Administration Agency of Spain (AEAT in Spanish) purpose is the effective implementation of state tax and customs system and its main mission is to assess and collect taxes. It operates in two activity areas of strategic policies, on one hand the incentive for voluntary compliance of taxpayers' obligations and, on the other hand, the fight against tax fraud.

The Agency states in its Service Charter the services provided, the rights of citizens, their commitment to quality and indicators to measure compliance; it maintains and deepens the lines of action, renewing its commitment to quality of services provided, with attention to the possibilities offered by technological advances and trying to anticipate new needs that may be offered to the public.

The main commitments are as follows:

- To improve personalized attention. Offering specialized treatment depending on the profile of each taxpayer.
- Managing clear and accurate information.
- Flexibility and simplicity of tax procedures, reducing the processes and unnecessary administrative procedures.

- Offer new channels for relations with taxpayers and facilitate payment of tax debts. Flexible and fluid communication with the public.
- Use of the latest technologies.
- Effectiveness and efficiency of all tax procedures; and finally
- Continuous adaptation to the socio-economic environment and the changing needs of citizens.

To carry out these commitments, the Agency has been a pioneer within the Spanish public sector in the development of Electronic Administration and the use of a digital platform as a strategy for information dissemination and for strengthening its institutional image.

The work was conducted primarily through its own developments, reinforced by outsourcing services for specific issues and in some cases, by the combination of both and has required the publication of a series of regulatory provisions, for adaptation of earlier texts and for normative development of new procedures.

This has enabled a significant costs reduction, both monetary and in time and effort, and makes it possible for the human resources, being more scarce than other administrations in the area, however, in order to achieve, a high degree of efficiency and effectiveness in meeting the targets thanks also to a high level of expertise achieved through the selection and training processes.

But all the Spanish administration is undergoing a modernization process in the framework of the European Union strategies. The Lisbon Strategy (2000) has meant a turning point in the development of policies for the Information Society within the European Union.

The purpose of the Lisbon Strategy was to make Europe in 2010, the most competitive and dynamic economy, knowledge-based and capable of sustainable growth with more and better jobs and greater social cohesion.

To achieve these purposes a series of policies had to be developed, among them, the promotion of Information Society by Improving the Information and Communication Technologies. For this purpose the European Commission in 2005 launched the "2010 iProgram", which considered the European level as well as the national reforms.

In connection with this European initiative in 2005 the Spanish Avanza Plan, was also launched for the period 2006-2010, with a budget five

times the amount spent on the Information Society in the previous four years.

In relation to the area of digital Public Services, the Plan was aimed at getting a fully developed Electronic Administration and guaranteeing the right of citizens and companies to interact electronically with Public Administrations.

To achieve these purposes, a series of measures were conducted, including some direct execution, promotional measures and legislation measures.

In 2007, the domestic legal framework for the Electronic Administration in Spain was established by Law 11/2007, which recognizes, from January 1, 2010, the right of citizens to communicate electronically with the administrations and the correlative requirement for Administrations to provide electronic services. This applies to all territorial authorities at central, regional and local levels.

Effective implementation of the Law required new regulatory developments, and **Royal Decree 1671/2009**, of the Ministry of the Presidency, which regulates various aspects of the Electronic Administration such as the electronic offices, electronic identification and authentication, electronic records, notices and electronic document or electronic files, the **Royal Decree 1363/2010**, of the Ministry Economy and Finances on mandatory electronic notifications in the area of the AEAT, and the **Royal Decree 3/2010 and 4/2010** of the Ministry of the Presidency, for implementation of the National Security Scheme, responsible for establishing common criteria and security levels for the management of the expected information and the Interoperability National Scheme that allow to share solutions and information.

Avanza Plan 1 and Law 11/2007 purposes were achieved with success in 2010; and this was recognized by granting Spain the United Nations Award for Public Service 2010 for having advanced 11 places in the world rankings on electronic Government to be placed number 9.

The Electronic Administration improves the operation of the Administration as a whole because it makes possible:

- **Greater speed and agility.** Can reduce processing times and simplify procedures.

- **Improvement in effectiveness.** Allows personalized treatment to millions of citizens.
- **Improvement in efficiency.** More proceedings can be made at lower cost.
- **Interconnection between Administrations.** Allows the interconnection between the Administrations and therefore they will exchange information, ensuring confidentiality and its proper use.
- **Environmental sustainability.** Saving paper, as we become use to not print the electronic documents.

Therefore, the following advantages for the AEAT can be indicated:

- Online availability of the documentation required to manage the internal work, thereby reducing processing times, especially as the digitization of the documents submitted on paper is generalized.
- The documentation on paper is filed on the site where it came from and does not travel so it gains in security.
- Better definition of procedures and standards of the casuistic.
- Increased effectiveness, by improving management procedures and greater efficiency, since more procedures can be performed in less time.
- Improved corporate image.

All these progresses in matters of electronic channels are evolving. Currently is required to perform only certain procedures by electronic means for corporations and entrepreneurs, but not for all.

Therefore, although we are in the context of Electronic Administration, we are in a process of evolution, since not all taxpayers may be required to use it.

2. DEVELOPMENT OF ELECTRONIC SERVICES IN THE AEAT

The implementation of electronic service provided to taxpayers, which began in 1996 through the Internet website of the Tax Agency, is neither easy nor immediate.

To mention some important points in the implementation process of these electronic services, we should mention the creation in 1998 of a secure virtual office for income tax of individuals (IRPF in Spanish)

and monthly tax returns of large companies, and its extension to other taxes and services in subsequent years.

Since 2003 there has been a strong impetus to electronic services, making possible the submission of returns through social collaborators, voluntary electronic notices, the transmission of data between administrations (with the person consent) and the recognition of new certification authorities.

The registration of empowerments to carry out procedures and actions on the Internet was created in 2004

The possibility to act with an electronic ID was introduced in 2006, on the same year the web for specific registry requirements and procedures was created and the warning on mobile phone to communicate the reimbursement payment of IRPF, the next expiration date of deferment, the granting of an application for compensation or payment installment, communicate the reference number to enter the income website of the Agency etc. was also introduced that year.

In 2007 came into force the aforementioned Law 11/2007, citizens' electronic access to public services, which has been the legal framework for the launch of the Electronic Office on January 1, 2010.

The Electronic Office replaces the old virtual office and it is a further step towards an integrated approach to electronic service provided to taxpayers.

Throughout this process there has been a constant interaction between the obligations from the already exposed regulatory development of the Electronic Administration, both at European and national levels and the purposes set in the AEAT, improving taxpayer assistance through electronic Services.

The implementation of the Law supposes for the Tax Agency a major challenge.

Although the Agency was already well advanced in the field of electronic services, it has been necessary to adapt procedures and applications to the requirements of Law 11/2007. It is not an option but an obligation for the Agency, which has been required to enable citizens to exercise their rights under the Law from January 1, 2010.

These rights are as follows:

1. The right to use electronic channels in their relations with the Public Administrations.
2. The right not to provide data and documents already submitted to Public Administrations.
3. The right to know by electronic means the status of procedures in which they are interested.
4. The right to make payments electronically
5. The right to obtain electronic copies of electronic documents pertaining to administrative records.
6. The right to use electronic identification techniques.

The correlative duties imposed upon the tax Administration are the following:

1. Creating an electronic office.
2. Create an electronic register where citizens can submit their electronic documents.
3. Creation of an electronic file
4. Payment Gateway
5. Electronic inventory
6. Using electronic identification techniques to ensure authenticity.

As a result of this Law, the Administration of the Central Government guarantees all citizens access to electronic services through a multi-channel system:

- **A. On site assistance offices**, which make available to citizens, in an open and free way, the media and tools needed to exercise the rights under Article 6 of Law 11/2007, and must have assistance and guidance on their use, either by the staff of the offices in which they are located, or via systems embedded in the media or instrument.
- **B. Electronic Access Points**, which consist of electronic sites created and managed by departments and public services and available to citizens through communication networks.
- **C. Call center services**, to the extent that the safety criteria allows it, enabling citizens the access to the information and electronic services.

The operation of all the rules of the Electronic Administration is a work entirely developed by the Agency's employees, working in a multidisciplinary team. The number of employees directly involved in the adaptation to the Law 11/2007 is 400, excluding directors.

At the present time, the citizen can choose, for any process, electronic filing or filing on paper.

Moreover, in the design of electronic services has been taken into account how companies operate, the pressures they suffer and the procedures used and effective means of communication with them have been studied, to attract their interest.

The standardization of names of procedures and services, the standardization of procedures, in particular, registration procedures or the standardization of consultation status can be mentioned as examples of the work carried out.

Standardization has been sought, but also favored by the creation of horizontal applications which connect with different management applications of the procedures.

3. BRIEF DESCRIPTION OF THE AEAT INTERNET WEBSITE

As it can be seen, the field of electronic services has experiences in Spain a great evolution from its beginning as a mere information tool and its development as a means of communication with the taxpayer to have become his active participation tool by electronic media in tax procedures.

The services are centralized through the Tax Agency website, which contains:

3.1 Agency Information with institutional information, information campaigns, information on Civic Education, Tax Planning, Electronic Office statistics and special information on the Central Delegation of Large Taxpayers, within which it is reported, among other things, Big Business Forum and the Code of Best Practices.

3.2 Information directed to three groups: citizens, companies and professionals and collaborators

- A) Under the block **«Citizens»** the “electronic transactions” screen can be accessed, through which taxpayers can check their tax records, census data and their notifications, as explained below.
- B) The block **“Companies and professionals”** group the information relevant to individual entrepreneurs and professionals, companies, large companies and non-residents.
- C) The heading **“Collaborators”** includes, for example, information from the Partnership Forum and Professional Tax associations, recently operating in March 2011 and includes models of

authorization procedures for social collaborators, which can perform multiple actions by electronic means on behalf of third parties

As with all other information services, it seeks to use a clear and concise language, capable of conveying to citizens normative rules in a clear way and provides each taxpayer with the responses to information requirements that apply to their tax profile.

Enable easy access and a simple declaration forms have been achieved and this has made possible higher automatic taxation, the systematization and access to relevant personal information, simplifying the tax system and the reduction of standards.

The accessibility to the Agency's website has obtained the Certification of Accessibility Euracert, double-A level.

3.3 Other services provided through the website

- Forms and assistance programs, classified and organized, and their instructions and rules can be **downloaded in PDF**.
- Includes a **history of updates** per months of last and current year, and it allows the subscription to the **Updated Information Service**.
- It has enabled a section of **computer queries resolution**, which is attended by calling real-time online helpers, remote electronic support, and even by computer support on Twitter.
- A **Taxpayer calendar** is available and a **section of Frequently Asked Questions and errors**, which has a great practical use in the Administration-taxpayer interaction and, in particular as regards to the use of computers.

An example of the frequently asked questions is all about electronic invoicing.

This section answer, for example, the question of whether taxpayers can convert their paper invoices to electronic format and the answer is that they can convert any original document, if the digitalization software used has been approved by the Agency and also reports the Decree of the Ministry of Finance that regulates it.

Regarding electronic invoicing, it should be mentioned the Agency website also discloses the specifications required for the electronic invoice to be accepted by the Agency in relations with its suppliers

deriving from the procurement of works, supplies, technical assistance and services.

These specifications should be observed in the files of invoices and generating electronic data transmission providers that the Agency should use when choosing this method of invoicing and have been developed in collaboration with all depository financial entities, associates of the Agency in the collection of taxes and revenues of public law.

In this process, the recommendations given in the fields by the EU and OECD have been taken into account, in the light of experience in trade relations, both private and public.

3.4 Pilot Experience that has developed during the month of February 2012 to **provide tax and customs information over the Internet to citizens who request it** and which have the electronic certificate or the eID.

Within the area of **Customs**, inquiries have been received relating to special taxes, Customs management and INTRASTAT.

On **taxation issues**, the pilot test is restricted for answering requests for information concerning the concept of Income Tax of Individuals.

In both cases, the experience has taken place on a limited territory, since only requests from the territorial areas of special delegations of Catalonia, the Canary Islands and Asturias has been answered.

4. THE ELECTRONIC SITE

Once some identity signs of the Spanish Tax Agency website have been mentioned, we must further deepen the analysis of services provided to taxpayers and talk about a key project in both the present and the future of the Spanish Tax Administration: The Electronic site, as mentioned earlier, has been launched on January 1, 2010 and replaces the old virtual office.

From the perspective of the taxpayer, the Electronic site is a point of access to services that require identification and authentication of citizens or of the administration.

Its main purpose is to allow taxpayers to perform all their tax procedures and formalities through it.

It is equipped with special conditions for identification, security and accountability, while ensuring accurate, current and complete information.

Citizens can, at this time, do all the procedures and consultations required 24 hours, 365 days a year.

In the consultations, the service called “My Files” should be mentioned, taxpayers that have an electronic ID or electronic certificate issued by any authorized entity, may know the status of files processing that they are interested in, when their electronic processing procedures have initiated after the 01.01.2010.

From the perspective of the Tax Administration, we can speak of six main blocks of activities, which are developed through the Electronic Site:

4.1 New Registration application.

Law 11/2007 provides the possibility to convert paper-based documents into electronic documents according to specific scanning systems listed in the Law itself, giving them the character of true copy.

Thus, once a document is submitted on paper, any administrative body can digitize it, so from that moment only the electronic document and not the original paper format will be sent.

In this regard, the Agency in December 2009 has already given the instruction, the obligation to digitalize, applicable to applications forms, documents and communications on paper that are presented in the registry offices of the tax agency, both in person and via the various postal services.

These Registration Offices include the General Registry, located at Central Services, and the auxiliary Registrar’s Offices in regional headquarters.

Thus, any document presented is properly digitalized. After cataloging and assigning it to the competent administrative office, it is linked to the appropriate file and properly incorporated into corporate databases, where it will be accessible at all times, both citizens to whom the proceedings relates to, and the responsible officials.

It should be noted that, once the original documents on paper are digitalized, these will no longer be used because:

- The taxpayer would be informed in electronic format (either online or copied to CD / DVD).

For a paper copy request of any document, the digitalized documents incorporated into the electronic file will be printed, together with the measures generated from the Electronic File application itself, a justification of the authenticity and integrity of those documents.

- For the Economic-Administrative Courts, the Administrative Jurisdiction or Criminal Jurisdiction, only files in electronic format are received, subject to that exception, the Court may request a transfer of an original document on paper.

The development of the application for registration has been done with excellence criteria, following a development model that provides for the reduction of administrative burdens, simplification of procedures and benefits for citizens and Administrations.

Therefore, the new application Registry has implied a great amount of work in reviewing the **inventory of all the procedures** of the Tax Administration and **formalities** that can be performed in each procedure.

The total number of procedures and services of the Agency with significance to the taxpayer is 443 and the number of internal procedures is 134, bringing a total number of procedures and a service of the Agency is 577.

The Registry application incorporates an element of high value-added such as to facilitate that the documents submitted by taxpayers reach the officials who administer specific files that are linked to documents and, moreover, allow electronic documents to be assigned to final users as quickly as possible, avoiding the problems of physical transfer of documents.

Therefore, the new registry application not only supports the control of the submitted documents by citizens but also is configured as a tool for integral management of documents since they enter into a Register of the Agency until they reach the official who is handling the case.

As a result of the work performed, the new application has required changes and adaptations to the working modes of the offices and specific officials who are responsible for different tasks to be performed on the documents.

Thus, currently, in compliance with the provisions of Law 11/2007, citizens can choose the electronic filing for any processing of any procedure of the Agency's tax service

For those cases in which, at the present time, the initiation or electronic communication is not possible, a initial and communication form in the Electronic Register has been developed, through which non-standard electronic documents can be submitted to the Tax Agency (for example, claims in a procedure).

The procedures, services and formalities that can be carried out on the Internet include, among other actions relating to:

1. Taxes

Presentation of tax returns models on Personal Income Tax, VAT, Corporations, Special taxes, Tax Registration, Non-Resident Income Tax, payments to accounts, informative statements, etc.

Among the informative statements it may be of interest to quote some examples, such as the annual returns of transactions with third parties, the annual return of certain income received by individuals resident in other Member States of the European Union and other countries and territories with which has been established an exchange of information or the annual returns of operations performed by entrepreneurs or professionals adhering to the collection management system via credit or debit card.

Comparing the system of traditional filing with the presentation over the Internet it can be seen as the main substantial difference that in the second one have only adapted to new technological tools the two essential elements of the process:

- The first is the signature (traditionally, the taxpayer signed his own tax return and on the Internet the taxpayer files with the electronic signature).
- The second element is the acknowledgment of the Administration.

In the traditional system the administration or the collaborating financial entity making the returns files returned them back to the applicant duly sealed, certifying that the statement was submitted.

In the Internet system, the Agency sends back a return code (electronic seal), certifying that the returns has been submitted online and accepted.

The **advantages of filing via internet** are many and important, for both, the **taxpayer and for the Administration**.

- **Advantages for the taxpayer**

The **taxpayer** can file his/her return conveniently from any location (home, office etc.) and with no need for displacement or waiting.

Also has the flexibility to file returns without having to adjust to the Tax Administration opening hours.

As new requirements for the taxpayer derived from Electronic Administration, most procedures require an identification system, electronic ID and/or electronic certificate (e.g. VAT and corporate tax).

However, in order to facilitate for the majority of taxpayers the electronic exercise of their tax obligations, in some cases these requirements are simplified.

Thus, in the case of the income tax returns draft, the current system of identification related to the electronic processing can be the electronic certificate or the electronic ID as identification through their Tax Identification Number (NIF) and name and Reference number of the draft or a specific field of the previous year income tax.

In case of informative statements, they should be electronically submitted or at the Agency's Offices, in support directly readable for the computer, but in some cases a printed presentation is admitted, when it does not exceed 15 records.

For each procedure capable of processing electronic formalities, a page with general information about the procedure, the information related to the electronic processing and the applicable regulation has been designed and placed in the electronic office for consultations.

- **Advantages for the Tax Administration**

The first advantage of the processing of taxes over the Internet is immediacy, because the statements are available for immediate process, avoiding the delay caused in the collaborator financial institution, in the Post Office and other classification and reading or recording processes performed in the Administration. This is particularly interesting for reimbursements.

The second major advantage is the correction, the statements submitted by Internet are correct (no errors) and this is particularly interesting in the case of informative statements.

Regarding the management of information, to be automated does not require the employment of personnel for processing, which means lower costs.

Another important advantage is the non-localization, since returns from taxpayers assigned to any administration or Delegate Agency can be submitted.

Finally, it is important to mention the adaptability of the system; it is a service adapted to the current entrepreneur needs and in line with the evolution of new technologies.

These advantages also apply to the rest of procedures performed via internet.

We must make an express reference to the possibility offered by the Income Tax Law 35/2006, which states that taxpayers may request to the Tax Administration to submit, for information purposes, a **draft statement** if the incomes are exclusively from the following sources:

- a) Income from work.
- b) Income from property capital subject to withholding or payment on account.
- c) Imputation of income property if they are from a maximum of two properties.
- d) Profits from assets subject to withholding or payment into account, as well as subsidies for the purchase of the residence.

The taxpayer may know, through the Agency's Electronic Office, the **draft statement** that has been prepared by the Administration with the relevant information available (called "fiscal data") and the calculations established by law.

If the taxpayer believes that the draft reflects his tax situation, he can sign and confirm it (by electronic means, by telephone as well as at the Agency's offices). In this case it should be considered as a tax return.

If he does not believe that it reflects his situation, a correction can be called when it is considered necessary to add personal or financial data not included in it, or warn that it contains erroneous or inaccurate data.

To carry out this assistance work it is necessary to be available in time and form, the data provided by the **informative statements** that the rest of taxpayers must submit to the Agency. Hence the special importance the informative statements have for the Tax Administration.

Therefore, during the period for submission of informative statements (January in the case of Spain) and once it ends (to 01 March, the draft delivery date), the Tax Agency performs another important assistance work, helping taxpayers in the preparation and electronic filing of these statements.

This work includes, in addition to the services available through Internet, phone calls, meetings with companies, technical assistance and informative sessions.

The procedures for reimbursement of taxes paid are also likely to start and processing electronically (although returns drafts can also be submitted at the Agency's offices and through collaborators).

In these cases, the Administration reviews the documentation submitted and contrasts it with the data and background that are in its possession. In case the requested reimbursement is recognized, the agreement shall be notified by the banks transfer receipt or, by the check if it is the case.

Notifications to be produced may also be made electronically, where appropriate.

2. Custom:

Among other actions, the presentation of summary statements and cargo manifests, presentation and delivery of statements, requests for approvals for premises, applications for Authorized Economic Operator or for authorizations customs regimes etc. can be mentioned.

For example, in the case of the summary statement of unloading of goods brought by sea, the statement may be submitted on paper or electronically via the Internet or at the Port Authority or the Tax Agency under the one-stop window Agreement between the Agency and the State Ports. In air transport the submission is made directly to the Agency.

3. Census: can be performed, among others:

High and low modifications census statements, statement for of address changes and / or personal data changes, statement of high or low variation on the tax Economic activity when managed under the Agency, answer requests from the Administration intended to ascertain the census information declared by the taxpayer, etc..

4. Tax certificates:

Application for tax status certificates, issued at the request of the taxpayer for various purposes such as certificates for contractors and subcontractors, tax residence certificates, certificate of good standing on tax obligations, required to participate in bidding procedures with the Public Administrations, etc.

5. Actions on collection matters:

Filing and completion of all paperwork using available forms in the electronic sites, answering the requirements, debt consultation with links to have payment letters, checking the processing status of procedures, submission of claims and/or documents or invoices, requests for extension of deadlines, etc..

6. Tax benefits and authorizations: The following actions could be performed:

Presentation of models to request advance payment of maternity deduction or for example the recognition of the right for an exemption of the IRPF for certain literary, artistic or scientific awards.

Prior agreements of valuation remunerations in kind of the personal work can be requested, in order to determine the corresponding payment to the IRPF account, the application for special depreciation schemes for corporate tax, etc. can also be submitted.

This section also includes, for example, the procedure for requesting authorization of an electronic invoice system, in which the applicant must submit an application specifying the means it intends to apply to guarantee the authenticity of the origin and content integrity of electronic documents issued. The Inspection Department may authorize or deny the proposed system.

Another procedure allows processing the homologation of invoice digitalization software certificate. In this case, the applicant must submit,

together with the application, a description of technical standards that underpin the certified digitization process and the protocols and security standards and procedures, control and operation related to the creation and database consultation of documents containing digital images of original paper documents supplied by the taxpayer and the electronic signature systems used.

7. Fiscal vouchers and disciplinary proceedings: the following competences can be mentioned:

Answering requests made under the inspection research and checking procedure, provision of vouchers for verification procedures of foreign trade data or for value vouchers, etc.

8. Requirements and communications:

Answering requirements and provision of evidence in proceedings conducted by the Tax Management, Customs, Collection and Inspection Departments.

It is also possible to perform some actions in the framework of **resources and economic-administrative claims**, as e.g. submissions in filing a claim or written allegation or claim back guarantees granted and proceed with complaints and suggestions to the Taxpayer Defense Council.

4.2 The electronic file:

The new registry program developed by the Agency has been a requirement to take a further step in the process of electronic service to the taxpayer with the development of **Electronic file**, and the Law 11/2007 is, as well, the starting point of its regulation.

The electronic file is the set of electronic documents that correspond to an administrative procedure, whatever the type of information they contain.

Taxpayers can check their records through the Electronic Site, accessing with a digital certificate or an electronic ID.

The development of electronic file has been made possible by the implementation of Registration, because it allows having available documents properly cataloged and digitalized from the moment of their receipt.

A same document can be part of various electronic files and the index of the electronic record replaces the files numbered.

The electronic record streamlines the processing of procedures facilitates the accessing of taxpayers and has an important advantage for the administration, allowing work from a different place other than the one where the file is located and therefore, a better use of available resources is possible.

The current task is to make progress in the integrated management in electronic format of all documents involved in each procedure of the tax Agency, regardless that these documents are on paper or electronic.

And speaking of procedures, it is necessary to include both which occur within the organization as well as in its external relations, with taxpayers, Economic-Administrative Courts, Courts of Justice and other government entities or institutions of public law etc.

In this sense, the Electronic File application is not just a documentation file mechanism, but the support of the documents comprising the record from the time of its creation or production in electronic format, or from the moment of the digitalization of original documents on paper.

The implementation of the electronic file is gradually carried out in the Agency.

For example, in the areas of tax inspection and Customs and special tax inspection, the electronic file is formed, since 2010, from the beginning of the procedure.

Thus, in the inspection area, the formation of the verification file and research must be made electronically from the initial time of processing the file.

The electronic documentation will be the only one constituting the precedent of the settlement agreements that are dictated and, in case of appeal, will be referred to the courts.

Therefore, in the management, identification and preservation of electronic documents, the same zeal previously used for the management, custody and indexing of files on paper must be applied.

However, in the areas of tax management, management of large companies and collection, the electronic file will be formed when an

economic and administrative claim is presented, so for now, it is not created for all files of these areas.

This is because, for example in the case of the Management Area at the time of entry into force of the Registration Application, the Electronic File Application was only developed in relation to certain disciplinary procedures and resources.

For the other procedures the application is not fully developed yet, so this type of files is the only one that needs to be created, resulting in digitalization and cataloging of all mandatory documents related thereto, when referral to the Economic Administrative Courts is required.

Some issues are still pending, such as the fact that, as its already known, a great number of documents relating to the actions of the Management Area office, are not received by the general registry or by the electronic register, but which are provided by the taxpayer directly to the “counter” desk.

Moreover, most of the time, this documentation is the most important and / or numerous of all the background that at some point are to be included in the file.

It is very difficult for management Offices to digitalize, in any case and immediately, all that documentation that comes over the counter. To try to resolve the problem the Tax Computer Department has generated and put into production a utility that allows assigning an “**electronic file number**” to the files corresponding to different procedures. This number will allow linking all documents submitted by the taxpayer (thus facilitating proper storage and subsequent access) and other documents which are issued by the AEAT.

4.3 Social collaboration for electronic filing of statements and communications:

The Agency has expanded the possibilities for action by taxpayers through **third-party representation**, which must have a digital certificate, to carry out actions and proceedings over the Internet.

This figure of social collaborator, which fits the figure of tax advisers, is called enabled representation by the new general regulation for electronic access to public services.

Since 2004 it was sought to overcome the difficulties of proving the representation for acting over the Internet and encouraging action before the Public Administration on behalf of third parties by electronic means.

This was established by the Resolution of February 2004, a record of proxies based on a software application that allows registering the powers granted by the citizens and companies to carry out those steps and actions that, in tax matters, could be made via internet, at that time through the Agency's website.

This is a computerized database and located on the Internet, live as it is modified by constituents and Internet-accessible with electronic certificate only.

In the Resolution of May 2010, it was stipulated that the accredited proxies should be incorporated to the registry in the following forms:

- **Power granted by form suitable for this purpose**, by personal appearance in the delegations and authorities of the Agency and, in the case of companies, by hearing the legal representative of the entity or person holding power to grant the authorizations.
- **Power granted by a public document or private document signed by an entitled Notary**, filed with the Agency.
- **Empowered by the Internet** using any of the identification and authentication systems provided by Law 11/2007.

Regarding the contents of the Register of proxies, the general powers of attorney by categories of procedures are included (filing, personal data query, reception of notifications and payment of taxes) and also the powers of attorney for specific procedures.

The powers of attorney can be granted to a person or persons except for reception of online communications and notifications. In this case it will only be issued to one person or entity.

At this time, social collaboration extends to the Internet presentation of claims for compensation and deferral or payments in installments.

4.4 Electronic notifications:

Under the new regulation, any individual or company is allowed to receive administrative notices electronically with total safety and integrity, either by **electronic hearing notification** (electronic

access by the interested parties to the content of the corresponding administrative actions, providing the record of such access) or **using an authorized e-mail address**.

The **electronic hearing notification** can be received through the Electronic Office, by digital certificate or electronic ID.

The **authorized e-mail Address** is mandatory in certain cases (Corporations and Limited corporations, and for large companies), for which the Royal Decree of October 2010 has established the compulsory notification and administrative communication by electronic means in the scope of the Tax Agency.

In these cases, notifications are sent exclusively to the E-mail Address authorized by the companies and, within ten calendar days from shipment without being accessed, notifications are considered to be made.

An electronic certificate is needed or someone empowered with a certificate can access, but their absence does not prevent the notification system from becoming operational with all its effects.

In respect of notifications, in order to facilitate the use of this modality of electronic management, from 2012 it will not be necessary to have an eID or an electronic certificate to file certain documents related to notifications received from the Agency.

It will be enough to access the option "Submit documentation related to a notification received from the Tax Agency," which appears within the block of "Outstanding procedures" of the electronic office, and to type the secure verification code (CSV), that the User will find in the footer of the first page of each document received from the Tax Agency as well as the NIF of the presenter.

4.5 Electronic payment, progress had been made long before the law with the payment gateway, so that compliance with this requirement has meant less work.

The payment gateway of the Tax Agency allows the citizen to pay electronically by e-Check or credit or debit card.

It has also expanded the ability to pay by direct debit from the Bank.

Additionally, there is also the possibility of paying tax debts through online banking services of Collaborating Entities, using the private keys that each bank provides to its customers.

Progress was also made to allow the collection of letter of payment via internet and other series of value-added services in the area of Collection, such as the ability to submit requests for debt payment deferral, debt claim compensation, submit responses to the measures of seizure of wages, salaries and pensions etc.

Credit institutions may also carry out the consultation of measures of seizure of accounts and entities paying salaries, pensions and wages may, for example, answer requests.

The citizen object of seizure measures have a number of features that allow for example calculating the seizable amount in the case of seizure of wages, salaries or pensions, answering embargo requests, obtaining letters of payment etc.

4.6 Online consultation of the processing status of files and electronic copy of the electronic documents that are part of the file

This means that, in general, the citizen does not have to ask for a consultation or a copy by completing a form and presenting it in the electronic registry, but with his electronic ID or electronic certificate can exercise these rights.

It should be noted, moreover, that all documents and certificates issued by the Agency, regardless of the route of their request, have a verification code so that the recipient can verify their authenticity and validity.

Therefore the Security Verification Code allows verification of the integrity of the electronic copy of this document and such verification can also be done through the electronic site.

5. AEAT STAFF TRAINING

The implementing electronic file work has also required making an effort in the training of the tax Agency staff.

This training began in 2009 and has been continuing since 2010 through the electronic channel (Intranet, e-learning, computer application “sametime” which allows instant messaging and real-time chat and virtual environment) and onsite sessions.

A dissemination effort has also been carried outside the organization; as well as external training in collaboration with the National Institute of Public Administration, diffusion with social collaborators and participation to seminars and fairs.

The foregoing shows that the application of the Law 11/2007 that the Tax Agency is performing is very ambitious. It is not meant for a mere formal compliance with the law but it wants the object and purpose of the law to be fully effective, given that it benefits the citizen and supposes a reduction of administrative burdens.

The Tax Agency and generally the Ministry of Finance should continue acting as engine and impulse for the information society and also collaborate in activation of the economic activity.

The Spanish Administration is aware that it is engaging and dedicating significant resources to electronic channels, without prejudice to the non-electronic means, as the Agency would continue to maintain its onsite channel to relate to those citizens who do not wish to do so by electronics means.

6. ANALYSIS OF THE TAXPAYERS OPINION

The impression of taxpayers on the services provided to encourage voluntary compliance can be analyzed in Spain, thanks to surveys and studies by the Tax Agency and the Institute for Fiscal Studies (IEF).

Figures from the survey study of IEF "tax opinions and attitudes of the Spanish in 2010" shows that almost three quarters of surveyed (72%) are aware of the services provided by the Agency, but only four in ten use them .

As for the percentage of citizens who do not know and do not use the Tax Agency services, six in ten citizens do not use or do not know the electronic signature service and half of surveyed do not know or never use the Agency's website.

However, on the other hand, only one in ten does not use or do not know the draft statements and information in the tax database.

The telephone information and face-to-face attention in the offices of the Agency are unknown or unused by 29% and 21% respectively.

Regarding the evolution of knowledge and use of services of the Agency, from 1995 to 2010, the trend in the relationship between

knowledge and use of Agency services by taxpayers, comparing the level of knowledge and use 2010 with previous years shows a slight increase in the level of awareness of the Agency's services, but the level of use remains the same.

The ratings on various support services show that all the services offered by the Agency have a very positive value (86% on average). Of these, the most valued service is the communication of tax data (for 91% of respondents responding), followed by the AEAT website and electronic signatures (for 90% and 89% respectively).

They are followed by the IRPF draft (for 87%), the attention given by officials to people that go in person to the AEAT offices (for 84%), leaving in the last place the telephone assistance to taxpayers, which is a good and very good service for 78%, but negatively valued by 22% of those who know it and have decided to give an opinion on it.

7. FURTHER INFORMATION ON ELECTRONIC ADMINISTRATION IN THE AEAT

Besides knowing the outcome of the surveys, to complete the analysis of the current situation it is interesting to know some facts about the electronic administration in the Tax Agency:

- Electronic payments: almost 3 million in 2010, including on-line payments through the AEAT, payments through electronic banking and payments in collaborator entities offices (IRPF).
- Social collaborators: 3,857 agreements or accession protocols.
- Powers of attorneys: 695,661 active powers of attorney in January 2011. Increase of 49% in one year.
- Electronic Notices: 66,675 high in census (January 2011).
- Number of income tax returns filed online 6.931036 in 2009.
- 695,026 notifications and communications sent to 717,601 in January 2011

8. CONCLUSIONS

Although there is work still to be done in terms of effective use by citizens, the achievements so far are many.

- 1.-The pending work must create synergies with other sectors of Public administrations and the focus of decision making, so as to make policies that encourage the citizens demand, since the supply of electronic services is already broad.

- 2.-It is necessary to achieve widespread use of electronic signature systems, in particular electronic ID and to optimize the effort and investment made by the public administrations for themselves and for society in general.
- 3.-Efforts should be made for personalized services and for developing them in accordance with the demands and needs of citizens in order to overcome the cultural preference for personal attention.

All efforts in this field involve a clear improvement of the efficiency of tax administrations. In an economic crisis like today is important to adopt measures to improve efficiency and productivity of existing resources and the commitment to electronic administration is one of them.

Ultimately we may conclude that facilitating compliance plays an essential role in the Tax Administration Strategies. The harder it is to fraud or commits mistakes, the easier the fulfillment of obligations is; the more taxpayers will comply with legal requirements.

A relevant example to limit opportunities for evasion and error is the acquisition and processing of information provided by third parties, included or not and in the mandatory and periodic process of withholding taxes.

In this regard, information provided by these third parties, held by the Tax Administration and included in its database can be exposed to the taxpayer in the returns drafts that are provided. It is therefore an important element which, besides limiting the possibilities of error, strongly encourages compliance and, in turn, facilitates it.

But cannot forget that encourage tax compliance is a task based on knowledge of human behavior and influence in this behavior is a complex task.

Part of a successful strategy is to increase each day knowledge of this behavior and encourage cooperation with large companies and social collaboration with associations of professionals, customs brokers, notaries, registrars of property, financial institutions, taxpayer representatives, Tax Administration collaborators etc.

Taxpayers are more likely to voluntarily comply when they believe that management is acting in a reasonable manner and in the new forums that are being created to facilitate the dialogue with these groups it is possible to develop strategies to show the efficiency and effectiveness of the Administration in the use of resources.

The electronic resources improve this compliance because they help the Administration to provide a better service and the taxpayer receives the message that the system provides more convenience, operates with more transparency and more efficiency, both in its procedures and its results.

In this sense, each time a taxpayer access our services is an opportunity to involve him in our strategy to increase voluntary compliance and to encourage the use of electronic channels.

E-FACILITATION OF COMPLIANCE: TAXPAYER SERVICES VIA INTERNET

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Contents: Executive Summary.- 1. Introduction.- 2. The CRA's current secure online services (SOLS).- 3. Today's plan for tomorrow.- 4. The "World" around us.- 5. Challenges of e-Services.- 6. Conclusion

EXECUTIVE SUMMARY

The Canada Revenue Agency's (CRA) mission is to administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.

Quality service and information are critical to voluntary self-assessment. The CRA uses an integrated, multi-channel approach that directs taxpayers to the most affordable yet effective channel to meet their service needs. Its services range from information and assistance provided through the Web, publications, and automated telephone service, to agent-assisted services, and electronic transactions.

The CRA has been offering secure electronic services to individuals, businesses, and representatives for many years. Today, individuals and businesses can use secure, automated self-service channels to meet some of their tax and benefit obligations. The CRA has consistently offered taxpayers, benefit recipients, and their representatives options for electronic service channels such as Quick Access, My Account for Individuals, My Business Account, My Payment, Interactive Voice Response, Smart-links, and electronic filing options.

The CRA's approach to improve current secure online services and functionality is through the development of its strategy entitled "Enhancing Secure Online Services (SOLS), A Business Architecture

for the Next Generation of CRA Self-Service Applications 2010 – 2015”. The SOLS Strategy identified 11 key themes by which the CRA could enhance its secure online services. These initiatives were: Authentication, Credential Marketing, e-Documents, e-Filing (Individuals), e-Filing (Business), e-Forms, e-Delivery, Mobile devices, e-Payments, Registration, and View.

In the same way that the CRA is exploring and improving on its electronic service options, the private sector continues to change. Options are being made available by the private sector through partnerships within the financial industry, independent of the CRA, to help make it easier for taxpayers to meet their tax obligation.

E-services and compliance is not only about making it easier for taxpayers to meet their tax obligation. It is also about providing services and making improvements in the way that the CRA does business, not only with taxpayers but as a government working with other governments and with the private sector. Improvements to service delivery enable taxpayers and businesses to provide correct information, which increases the CRA’s accuracy in handling their files.

The CRA’s commitment to Canadians to provide and improve on the multiple service channels makes it easier for taxpayers to comply with Canada’s tax laws.

1. INTRODUCTION

Quality service and information are critical to voluntary self-assessment. The Canada Revenue Agency (CRA) uses an integrated, multi-channel approach that directs taxpayers to the most affordable yet effective channel to meet their service needs. Its services range from information and assistance provided through the Web, publications, and automated telephone service, to agent-assisted services, and electronic transactions. CRA’s high-capacity production systems, supported by an information technology service management approach, facilitate a range of CRA activities such as assessing and processing high volumes of tax and benefit data, issuing and receiving payments, and other services important to its clients.

COMPLIANCE

Services	Facilitation	Processing	Post-Assessment	Redress
My Account	e-Forms	e-Payment	e-Documents	Register a Dispute using My Account and My Business Account
Quick Access	e-Filing for Individuals	traditional paper	e-Delivery	traditional paper
My Business Account	NETFILE, TELEFILE, E-FILE			
Represent a Client	e-Filing for Business			
My Payment	traditional paper			
Interactive Voice Response				
CRA website				
Smartlinks				
Telephone				

Providing Canadians with information, tools, and services via multiple service channels helps them to comply. This principle underpins CRA’s strategy to enhance service delivery for individuals and businesses. The CRA offers information through its Web site, publications, Interactive Voice Response, agent-assisted enquiries, electronic transactions, and account modifications through its Web pages.

The goal of these activities is to ensure Canadians have access, through multiple channels, to the services they need to voluntarily comply with Canada’s tax laws.

1.1. Service Indicators

The CRA continues to strengthen service to Canadians by capitalizing on technological innovations that open up new opportunities to reduce the burden of compliance.

Canadians are increasingly embracing the CRA’s electronic service offerings.

In 2010-2011:

- 66.3% of interactions and transactions were undertaken on a self-service basis by individual and business taxpayers, and benefit recipients and/or their representatives, up 2.5% from the previous year;
- There were over 14 million visits to the My Account Web page;
- There was a 56.2% increase in successful log-ins to My Business Account services;
- 60.3% of individual returns were filed electronically; and
- 41.2% of GST/HST returns were filed electronically.

Providing Canadians with multiple service channels makes it easier for taxpayers to comply with Canada's tax laws. The CRA's successful efforts to process individual and business tax and information returns and payments, accurately and on time, further contributes to self-assessment and voluntary compliance.¹ Its increasing success in these areas demonstrates that it continues to provide Canadians with access to the services they need to meet their tax obligations voluntarily.

2. THE CRA'S CURRENT SECURE ONLINE SERVICES (SOLS)

2.1. Services Readily Available to Canadians

The CRA has been offering secure electronic services to individuals, businesses, and representatives for many years. Today, individuals and businesses can use the CRA's secure, automated self-service channels to meet many of their tax and benefit obligations. It has consistently offered taxpayers, benefit recipients, and their representatives' options for electronic service channels.

Business and individuals can file their returns, pay their taxes, and access tax and benefit information quickly and securely on the CRA Web site. Electronic filing options for individual returns include NETFILE¹, TELEFILE² (filing over the phone), EFILE³ (filing through a third-party transmitter), and EFILE On-Line Plus (batch filing by third-party transmitters). Electronic filing options for business related returns include GST2/HST3 NETFILE⁴, GST/HST TELEFILE⁵, GST/HST Internet File Transfer (GIFT)⁶, GST/HST Electronic Data Interchange (EDI)⁷, Corporation Internet Filing, and Internet File Transfer.

¹ Appendix 'A' identifies the CRA processing service standards

² Goods and Services Tax (GST) is a tax that applies to the supply of most property and services in Canada.

³ Harmonized Sales Tax (HST) is a tax that combines the GST with each province's own provincial sales tax, where applicable.

2.1.1. My Account for Individuals

Introduced in 2003, My Account is a secure way to allow Canadians to view and manage specific information related to their income tax returns, instalment payments, direct deposit, Canada Child Tax Benefit (CCTB) payments, GST/HST credit payments, and more. By registering for secure user identifier, My Account allows individuals to access services such as: change their return, change their address, change their marital status, apply for social benefits, arrange for direct deposit, authorize representatives, set up pre-authorized payments, register disputes, view returns, view some tax slip information and more.

In July 2010, the CRA redesigned the layout of My Account to feature the use of tabs to more effectively organize and display the growing amount of information. The changes were designed to improve usability, streamline navigation, and contribute to an easy to use, intuitive user experience.

The CRA is working towards offering notices and correspondence electronically, through the My Account service, as an alternative to regular mail. Also, it will offer a facility to allow taxpayers to submit documents electronically to CRA.

My Account for Individuals will continue to be the platform upon which the CRA will build additional offerings and enhance its secure online services.

2.1.2. Quick Access

Quick Access online option continues to be a popular choice for taxpayers, as it gives immediate access to some of the information within My Account for Individuals, such as tax return status, RRSP⁸ deduction limit, Tax Free Savings Account (TFSA)⁹ contribution room, and the status of benefit payments, provided that taxpayers have correctly identified themselves. Taxpayers must provide their social insurance number, their date of birth, and the total dollar amount they calculated and entered at a specified line of their most current filed and processed income tax return from the previous two tax years.

Information available through the Quick Access Service is limited. However, the user identification process is simplified and there is no requirement to create login credentials. As the CRA moves forward in enhancing its secure online services, additional items may be added

to Quick Access, provided the information does not require greater security than is available within this portal.

Successful log-ins	2009-2010	2010-2011	Change
My Account	4.6M	4.7M	2.0%
Quick Access	1.1M	1.2M	4.1%

2.1.3. My Business Account

My Business Account was launched in 2006 and provides a secure means to access online personalized business account information and services for Corporate Income Tax, Excise Tax/Duty, Payroll, TFSA, and GST/HST accounts. Businesses can: file/transmit returns; view an extensive list of statuses, account balance activities, and correspondence; make online requests; transfer payments; register formal disputes; request rulings; authorize access; calculate instalments; and, manage profiles.

My Business Account also provides services for filers of the TFSA annual information return, as well as providing a means for businesses to support an audit by providing the ability to send electronic records online, and includes quick links to other services, such as My Payment. The My Business Account portal is an integral component of the CRA's future secure online services initiatives.

The CRA added features to My Business Account this past year to encourage businesses to perform certain transactions. One of the key new features has made it simpler to transfer payments within a program account and between program accounts of the same nine digit business number, to make adjustments to GST/HST returns, and to make online requests for certain financial transactions. It also added an installment payment calculator to make it easier for businesses to calculate their installments for corporation and GST/HST accounts. Enhancements were also made to CRA's Payroll Deductions Online Calculator to calculate payroll deductions more easily. For GST/HST NETFILE, features were added so that registrants can now also file their Public Service Bodies'⁴ Rebate at the same time as they electronically file their GST/HST Return.

In 2010-2011, there was an increase of almost 1.3 million electronically filed GST/HST returns due, in part, to the harmonization of the provincial sales tax in Ontario and British Columbia and the introduction of mandatory electronic filing initiatives. As well, there was an increase

⁴ *Public service body – means a charity, a non-profit organization, a municipality, a university, a public college, a school authority, or a hospital authority*

of over 369,000 corporation returns filed via the Internet due, in part, to the Corporate Tax Administration for the province of Ontario (CTAO) and mandatory Internet filing initiatives.

My Business Account	2009-2010	2010-2011	Change
Successful log-ins / Accesses including Representatives	794,318	1,240,702	56.2%

The growing number of log-ins to this Web page provides evidence that businesses see the benefits of using this online service. A recent independent survey showed that amongst the respondents who use My Business Account, 87 percent of them found this service to be good or acceptable and 93 percent of third party (representatives) tax practitioners felt the same.⁵

2.1.4. Represent a Client

Represent a Client is a portal that provides registered third parties with secure, controlled online access to tax information on behalf of the individuals and businesses they represent. The target portal users range from individuals representing family members to business owners, book keepers, trustees, lawyers, or tax professionals.

The access for the third party representatives is controlled so that authorization is provided at the appropriate level, with the ability to restrict access to view only, view and make changes, or to a limited number of accounts.

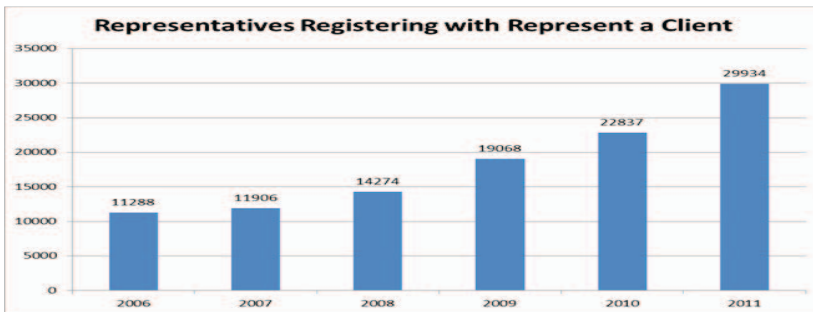
Within the portal, third parties representatives are able to access most of the same features available to business owners via My Business Account and to individuals via My Account. The Represent a Client portal also provides third party representatives with tools to manage their client lists, and associated authorizations including expiry dates. Detailed transaction records are made available to administrators and owners of tax businesses providing them with the oversight tools to monitor the activities of their employees. In the coming year, further planned changes to the system include the ability for a registered third party to cancel their authorization on an individual's or business' account. The CRA is also introducing a message center which will enable two-way electronic communication between the CRA and the third party representatives and will further support the CRA's e-initiatives.

⁵ *Canadian Federation of Independent Business, Canada Revenue Agency Report Card, January 2012.*

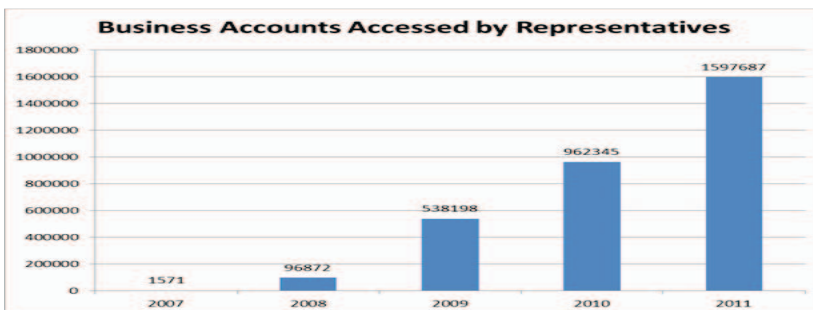
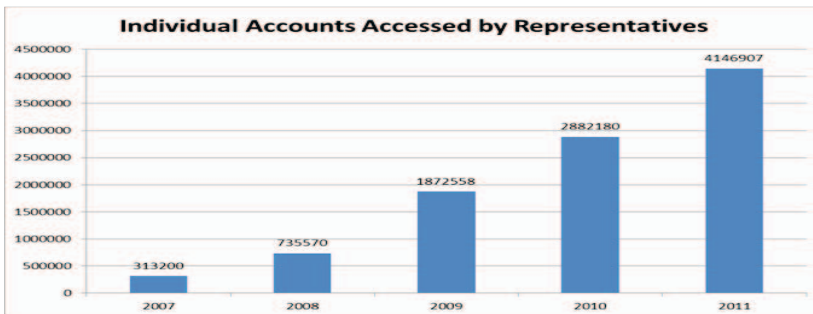
TOPIC 1.1 (Canada)

The Represent a Client service continues to be a significant contributor to the suite of self-service options. Use of the Represent a Client service continues to grow. Many Canadian businesses and individuals are relying on authorized third-party representatives to interact with the CRA on their behalf.

The following charts demonstrate the year-to-year growth observed in the number of registered representatives, and the number of accounts accessed:



There are almost 89 thousand representatives that are authorized to access tax information on behalf of individuals and businesses through the secure online portal.



2.1.5. My Payment

The CRA My Payment service is an alternative electronic payment remittance method for individual and business entities. Our My Payment service lets individuals and businesses make payments electronically through a secure link with participating Canadian financial institutions that offer the Interac® Online payment service. The application facilitates the remittance of payments directly to the CRA by linking to participating financial institutions' online banking services. To use the secure interface service, users need to have access to their online banking, have sufficient funds in their account, and the total payment has to fall within the limits that the bank has associated to debits on the account. As the CRA explores electronic payment enhancements, it hopes to enhance the service to increase payment options and participation, and reduce restrictions and limitations to allow for greater efficiencies. My Payment is an additional way that it is making compliance easier.

2.1.6. Interactive Voice Response (IVR)

The CRA attempts to make information and tools available in a manner that is best suited to the needs, abilities, and preferences of taxpayers, because it believes that this positively influences taxpayer compliance with tax legislation and allows them access to benefits to which they may be entitled.

The use of IVR is an important part of the CRA's overall telephone service delivery strategy.

The overriding goal of using IVR is to extend the CRA's service offerings beyond regular business hours. The use of IVR during normal business hours also allows the CRA to increase the overall accessibility to its telephone service by providing callers with the opportunity to self-serve rather than speak to an agent.

Over the last several years, the CRA has started using its credit IVR applications to assist with high call volumes around payment issuance dates. Rather than provide a busy signal to the caller, the call is routed to the IVR.

IVR services work best for simple and repetitive types of transactions such as refund and payment enquiries. CRA's strategy is to concentrate the use of IVR for these types of enquiries. In the case where an enquiry might be more complex, the CRA prefers that the caller speak to an agent to resolve their enquiry.

The IVR applications provide callers with the opportunity to obtain both personal and general tax information. The CRA offers eight services through IVR. The following is an overview of these services:

1. **Telerefund** lets taxpayers know if their income and benefits return has been processed and when they can expect their refund.
2. The **GST/HST credit** service tells taxpayers if they're eligible for the goods and services tax/ harmonized sales tax credit and the date they can expect to receive their payment.
3. The **Canada Child Tax Benefit (CCTB)** service will tell taxpayers if they're eligible for the CCTB and the date they can expect to receive their payment.
4. The **Universal Child Care Benefit (UCCB)** service will tell taxpayers if they're eligible for the UCCB and the date they can expect to receive their payment.
5. The **RRSP deduction limit** service lets the caller know the amount of RRSP contributions which can be deducted on their current-year return and, if it applies, any unused contributions available for them to claim.
6. **Info-Tax** gives information on a number of popular tax topics to help taxpayers file their current-year return.
7. The **Business Information** service gives information to help individuals who operate a business or are thinking of starting up a business.
8. The **Tax Free Savings Account (TFSA)** service gives the caller information on a number of topics concerning the TFSA. It also lets the caller know the amount of unused TFSA contributions as of January 1st of the current year.

The IVR services provide the CRA with the means of extending its service offering to 7 days a week, 24 hours per day. This in turn assists taxpayers and benefit recipients in obtaining the information that they require to comply with their obligations and access to the benefits to which they may be entitled.

2.1.7. Smartlinks

The Smartlinks program provides a quality service option to users by combining Web self-service with telephone agent assistance.

Smartlinks are placed strategically on selected complex CRA Web pages and Web applications. Taxpayers navigating the CRA Web site are able to get additional information and/or help by simply clicking on a “Smartlink”. Through an automated IVR computer system, taxpayers are connected automatically to a Smartlinks agent who immediately answers their questions over the phone while viewing the exact same Web page as the taxpayer.

2.1.8. Forms and Publications

Taxpayers can download or order forms and publications online or by phone, get fillable forms, order forms and publications in multiple formats. The site allows the option to search by form type; by tax package; by topic such as: capital gains, moving expenses, day care, registered plans and more; or if preferred by client group such as: Persons with disabilities, Seniors, Students, Non-residents, Visitors to Canada, Employers, Farmers, Fishers, and more.

3. TODAY’S PLAN FOR TOMORROW

The CRA’s approach to improve current secure online services and functionality is through the development of its strategy entitled “Enhancing Secure Online Services, A Business Architecture for the Next Generation of CRA Self-Service Applications 2010 – 2015” (herein referred to as the SOLS Strategy). In developing this strategy, principles were created to guide the development of electronic services to ensure that they continue to be secure, reliable, and easy to use.

The SOLS Strategy identified 11 key initiatives by which the CRA could enhance its secure online services. These initiatives are: Authentication, Credential Marketing, e-Documents, e-Filing (Individuals), e-Filing (Business), e-Forms, e-Delivery, Mobile devices, e-Payments, Registration, and View. They are described below and categorized as follows: currently available; currently in progress; and, future consideration.

3.1. SOLS Strategy Initiatives Currently Available

3.1.1. Authentication

The CRA currently has several identity proofing/authentication solutions in place. Its goal is to move toward a common authentication model and a single point of entry for most of its online services. Streamlining the many identity proofing/authentication solutions in use within the

CRA, without altering current security assurances, offers a service enhancement for clients who use multiple authentication channels to interact with the CRA.

A major milestone was reached in October 2010, when the CRA successfully introduced its Credential Management Service (CMS) as an alternative to the Government of Canada (GC) e-pass. Implementation of its own credential management service ultimately lowered the CRA's overall costs related to offering a secure online channel, subsequently enabling the CRA to offer a broader suite of secure electronic services. It also provided the GoC with a benchmark cost model for comparison during its procurement of a replacement for the e-pass service.

3.1.2. Credential Marketing

Central to any expansion or enhancement of Secure Online Service is the fact that all secure access, whether by individuals, businesses, or representatives, is enabled by the CRA's Credential Management Service. Given the priority of protection of data to public confidence in the CRA's self-assessment tax program, a secure credential is the foundation of all secure electronic interactions with the CRA. Getting credentials into the hands of more clients is in everyone's best interest. Credential marketing is a major service enhancement that will open new avenues of getting CRA credentials in the hands of its clients, and lead to an increase in the ability to self-serve through secure online access. The CRA will examine ways it can expand the channels through which the CRA security code can be issued, thereby eliminating the delay in the registration process.

The first initiative of a multi-year integrated marketing-communications strategy includes the design of a business landing page and a mail out campaign targeting small and medium-sized enterprises and their representatives (employees).

3.1.3. e-Forms

The CRA continues to enhance its service offerings for taxpayers to complete and file CRA forms online, without having to print and submit it by mail. e-Forms refers to a mechanism to capture structured data at source and process it without having to print, submit, and data-capture the document. Increasing e-Form capacities will greatly reduce the compliance burden and eliminate paper.

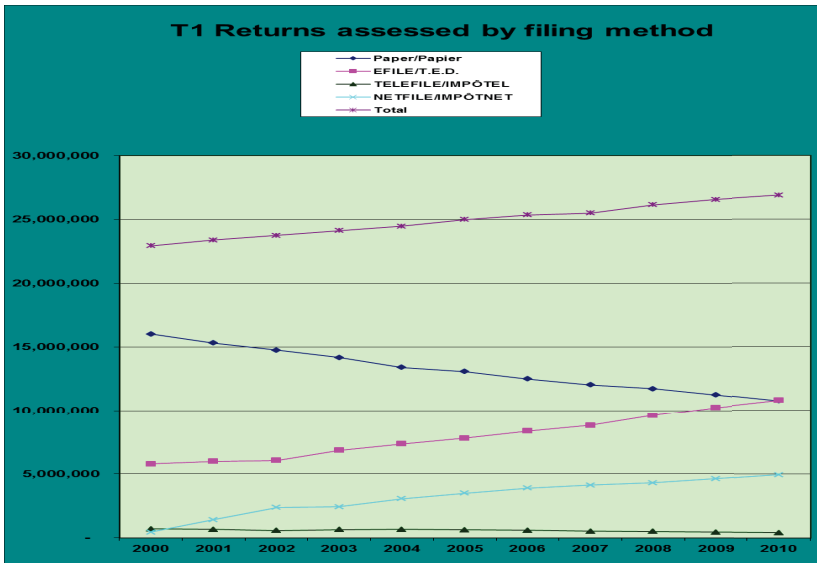
With the recent advancement of technologies, the CRA is exploring different means of data capture outside of traditional forms. Rather than individuals self-identifying which form(s) needs to be completed, taxpayers would be greeted with a series of interview-based automated questions. The responses provided would direct taxpayers accordingly to the correct documentation that is required for their self-assessment.

Automated interview-based completion of forms is expected to make compliance easier by providing taxpayers with the information they need to file their returns and apply for applicable benefits where appropriate.

3.1.4. e-Filing: Individual

The CRA's suite of electronic filing services (EFILE, NETFILE, TELEFILE) continues to be the most popular service the CRA offers, with more than 16.8 million individuals filing their T1 Individual Returns electronically.

The following graph illustrates how paper returns continue to decrease year over year, while NETFILE and EFILE slowly surpass the traditional paper return. While TELEFILE numbers continue to fall, over 360,000 Canadians still file their taxes by telephone.



Although the combined electronic filing numbers are higher than paper, paper continues to be a significant source for individual tax returns. NETFILE is increasing steadily at approximately 6% a year; however, it only accounts for 19% of total returns filed.

A closer look at the paper-filed returns indicates that 44% are prepared using tax software that creates a 2D bar code⁶. Almost half of the returns filed by paper are prepared using the same software that is used by individuals who prepare and file their return using NETFILE. The ability to attach and/or submit supporting documentation as described in the sections on e-Documentation and e-Forms would go a long way in resolving this impediment to electronic filing, and has the potential to dramatically increase electronic filing numbers.

3.1.4.1. File my return

Although it is not currently available, the CRA is exploring the creation of a free online tool, similar to a fillable form, through its secure portal. Ideally, this free fillable form will allow taxpayers to submit their returns online. This form would be Web based and would not require any software to be downloaded. This option is targeted to taxpayers who file on paper and do not want to buy software and do not need the more complex features of commercial software. It is a simple form, for simple returns. It is another way to show Canadian taxpayers that the CRA is committed to making compliance easier.

3.1.5. e-Filing: Business

Legislation introduced in 2010 required all corporations with gross income over \$1 million to file electronically with a few minor exceptions. This contributed to an additional 369,000 returns being filed electronically. Larger filers have been legislated to submit annual returns in some form of electronic format for some time. Also in 2010, legislation was used to mandate electronic filing for all GST/HST registrants with sales greater than \$1.5 million. Furthermore, it also requires particular electronic filing methods to be used in certain situations. Legislation has resulted in a 67% increase to electronically filed returns (as of January 2012).

⁶ The CRA introduced two dimensional (2D) bar coding in 2005. When CRA-certified tax preparation software is used to print a copy of a taxpayer's income tax and benefit return, a 2D bar code is printed on the first page. This bar code contains all the identification and financial data necessary to process the return. The use of machine-readable bar codes provides for faster, more accurate, and more efficient capture of tax return data than by manual keying.

Internet filing is now the preferred option for receiving information returns, and the use of electronic media (such as CDs, memory sticks) is being discouraged and will eventually be phased out, as evidenced by the mandatory requirement to file all TFSA information returns over the Internet, and the use of legislation to discourage paper or electronic media filing by employers. Electronic filing significantly reduces the cost and time required to process information returns.

3.2. SOLS Initiatives Currently in Progress

3.2.1. e-Delivery

e-Delivery is the capability to advise participating clients, via email, that they have a new piece of correspondence or action request from the CRA. The correspondence could be a form letter, a Notice of Assessment or Re-assessment, a request for substantiating information relating to an audit, an instalment reminder, or a request to submit payment.

Simply put, e-Delivery opens up unlimited new avenues for business lines to communicate with participating clients.

Similar to the system employed by banks and investment houses, no sensitive information would ever be sent to registrants by email, nor would the CRA request to receive information back through email. Rather, clients would be required to sign on to their secure portal, (My Account, My Business Account, or Represent a Client) to conduct their business, whether it is submitting receipts in response to correspondence from an Auditor (see e-Documents initiative), paying a bill, or viewing recent correspondence.

The CRA would reap significant efficiencies, and its clients would find it easier and faster to meet compliance obligations. As well as being a major service enhancement, e-Delivery would:

- Reduce printing and mailing costs;
- Reduce time of delivery (communication can be delivered to the Web immediately upon creation);
- Reduce time of reply (the CRA does not have to wait for regular mail);
- Support the CRA's sustainable development agenda; and,
- Promote the utilization of CRA secure portals.

In October 2011, a Message Centre was successfully implemented into the My Business Account (MyBA) portal. The use of this new functionality is a method to send general messages in a secure environment to all MyBA users (including business owners and their representatives). Specific messages can also be sent to individual or small groups of business accounts. Messages could include announcements of new or enhanced electronic services, legislative or procedural changes for taxpayers, or notification of planned system outages. MyBA users are able to view, manage, and delete these messages within their secure account.

3.2.2. e-Documents

The deployment of an e-Document capability provides a secure method for taxpayers and their representatives to transmit/submit supporting documentation and receipts (i.e., unstructured data) to the CRA.

This capability currently exists through a pilot project which allows the transfer of business related data to take place in a secure environment (My Business Account) and has been well received by business in responding to CRA requests with respect to planned audit activity. It is less intrusive on taxpayers or their agents, allowing for more efficient communication between the auditor and taxpayer/agent, and resulting in improved efficiency in the audit process.

Further extending this pilot to all aspects of the CRA's interaction with the public would involve expanding the process to My Account for Individuals and Represent a Client.

The initiative would, in effect, allow all individuals, businesses, charities, third party representatives, etc., to respond via the Internet to requests for information and/or supporting documentation. The information could be in various unstructured formats, including scanned text and images. Following established internal procedures, CRA staff would examine the submission(s) in order to determine if an information request has been satisfied, or to take further action on the taxpayer's file.

Although, this may not completely replace the use of paper by CRA clients, the benefits include the potential to create national banks for workload distribution, reduced resource demands to handle paper submitted by taxpayers, as well as reduced infrastructure needs to physically store and potentially retrieve documents. These benefits would be in addition to the enhanced client service experience the

CRA would be offering to taxpayers through its secure online portals ultimately making it easier for them to comply with CRA requests.

3.2.3. e-Payments

Currently, the CRA offers a wide variety of electronic payment options, including electronic bill payment through service providers, Branch and automated banking machine payments, telephone banking, and internet banking services through My Payment. Significant service features have been put in place, but more work can be done.

Within My Payment, only a few banks are currently supported through this application.

An additional inconvenience to taxpayers is the fact that not all banks currently support payment from either personal or corporate accounts. Although payment functionality is available from within My Account, My Business Account, and GST/HST NETFILE, the user experience is not optimal due to the fact that payment information must be entered manually by the user. There is no ability to make a payment directly in My Account, My Business Account, or GST/HST NETFILE without logging off and then going to My Payment.

3. 2. 3. 1 Enhancing Pre-Authorized Debit

CRA currently offers electronic pre-authorized debits (e-PAD) to individuals with an identified arrears amount owing or a requirement to pay tax by instalments. This service authorizes the CRA to withdraw a pre-determined payment amount directly from an individual's bank account at a Canadian financial institution on a pre-determined date.

This payment can be a one-time payment or a recurring payment. Individuals can only access their e-PAD information through My Account as information is not stored in the My Payment portal.

In an effort to offer more self-serve electronic options to taxpayers, the CRA is exploring the expansion of electronic pre-authorized debits (e-PADs) to allow individuals and business to make their payments through any of the three CRA portals: My Account, My Business Account, or My Payment. The vision is that taxpayers will be able to initiate, view, modify, or cancel their e-PAD arrangements electronically in any of the three portals.

In keeping with client expectations, the CRA continues to explore payment options to create an integrated and streamlined process to enhance the user's experience. By offering different ways for taxpayers to make payments, this reinforces CRA's commitment to offering self-serve payment options that are reliable, secure, confidential, and convenient and that are in-line with payment industry best practices.

Additionally, these types of service enhancements for Canadians would greatly reduce the compliance burden and generate cost savings.

3.3. Initiatives for Future Consideration

3.3.1. Mobile Devices and Alternative Delivery Services

The phenomenal growth of smart phones, netbooks, i-tablets, and similar mobile devices, and the emergence of a generation capable of running its life from its pocket, forces us to consider alternative delivery mechanisms to accommodate smaller screens and miniscule readouts.

When the SOLS strategy was created in 2009, CRA clients could access the CRA's online offerings via a mobile device; however, these solutions were designed for traditional desktop and laptop usage, and were not customized for the small screen size of a mobile device. Navigation was not user friendly, but anyone who really wanted to visit the Web site could use their mobile device to accomplish this task.

Progress has been made since 2009. In January 2012, the CRA Mobile Web site was launched. Anyone signing on with a mobile device is now sent to this new Web site, and the user is given a list of products to choose from (in order of most frequently visited), namely 'Individuals and Families', 'Businesses', 'Charities' and 'News'. If they choose 'Individuals and Families' they are presented with another list to choose from, such as: e-services, information, etc. These sub-levels continue until the user is taken to a specific page on the site. At any time, the user can go directly to the full website. The mobile site averages over 1400 visits per day. Phase II of the project, which is to modify the landing pages to suit a mobile device, are underway.

3.3.2. Registration

The CRA can currently accept all registrations online for a Business Number (BN) for Corporate Income Tax, GST/HST, Payroll, and some provincial program accounts.

However, the CRA's Business Registration Online system was designed for small and medium-sized businesses that have less complex registration requirements.

Strategic planning and options analysis is underway to expand and re-engineer the CRA's online registration service to provide a complete suite of services for all businesses, third-parties, and tax programs. It will address data integrity of the BN system, and enable the CRA to leverage its investments in other systems that rely on BN data.

3.3.3. View

The View initiative refers to the ability of the taxpayer or their authorized representative to view/access and, in some cases, download information held by the CRA. Currently, through My Account, My Business Account, and Represent a Client, there are view capabilities including your return, your benefit and credit payments, RRSP limits, account balance and activity, and correspondence. Enhancing CRA's View capabilities within its online portals will lead to service enhancements and, likely, increase compliance. It would also seem reasonable that expanding the information available online would reduce the number of requests the CRA receives each year for copies of correspondence, documents, etc., allowing staff to focus on more complex and value added issues.

4. THE "WORLD" AROUND US

4.1. The Private Sector

In the same way that the CRA is exploring and improving on its electronic service options, the private sector continues to move forward. Options are made available by the private sector, and partnerships are being created within the financial industry, independent of the CRA, to help make it easier for taxpayers to meet their tax obligation.

The 2010 tax filing year saw the introduction of tax preparation software for the iPad, available for download using iTunes. Although its use did not produce a large number of returns, it does give an indication of what future uptake might look like. The CRA continues to monitor its use.

In order to increase the CRA's electronic filing take-up, improve service, and reduce the compliance burden, the CRA has increased its promotion of existing free third-party tax software options on the

CRA Web site. The CRA has encouraged software developers to offer more “free” options for taxpayers. Many “free” software packages have restrictions and exclusions as to who can use them. There are often free offerings for students, seniors, or those in a lower income tax bracket. However, there are also some restrictions that could include: whether or not the taxpayer is filing a “simple” return compared to a more complex return; and income level thresholds. There are only a few software products that are completely free, regardless of the type of filer, age, or income level. Several software developers have done extensive marketing for the 2011 tax filing year to promote their products. One software developer has offered its clients unlimited access to tax professionals by phone for a limited time during the peak filing season.

4.2. Benefits and Partnerships

E-services and compliance is not only about making it easier for taxpayers to meet their tax obligation. E-services is also about providing services and making improvements in the way that the CRA does business, not only with taxpayers but as a government working with other governments and the private sector.

4.2.1. To the “Benefits” of Canadians

The CRA is also responsible to help Canadians get the money that they are entitled to through various benefits and credits. Realizing that taxpayers want the CRA to automatically calculate the benefit payments, an initiative called the Automated Benefits Application (ABA) was created. This project offers a unique “single service window” that automates the process for new mothers to apply for social benefit payments when they register the birth of a child within their province. When a mother uses ABA her eligibility and payments are automatically calculated and issued for the following federal and provincial family benefit programs: the Canada Child Tax Benefit, the Universal Child Care Benefit, the GST/HST credit, and any related provincial programs.

The information is transmitted by the province to the CRA to automatically calculate the benefit payment via a secure electronic communications network.

ABA is currently available for use by approximately 80% of all mothers in Canada with newborns to make it easier to apply for benefits. Approximately 95% of the mothers that have the option to use ABA are choosing to use it to apply for benefits for their newborn.

The ABA service reduces wait times and paperwork to get the rightful social payments in the hands of parents quickly at a very busy time in their lives. During a time where everyone wants faster, easier service, the ABA project is addressing this need.

4.2.2. Business Made Easier

In addition to the Automated Benefits Application initiative, the TFSA initiative is also breaking new ground for enhancements to the CRA's electronic services. The TFSA initiative involves combining contribution and withdrawal information received electronically from TFSA issuers (financial institutions), allowing taxpayers to view their TFSA information online via My Account. The contribution and withdrawal information, (e.g., information returns) is received electronically and the CRA electronically notifies issuers of information where there are errors requiring correction. The errors are downloaded from My Business Account, corrected, and resubmitted, all via a secure communication network.

In the CRA's continuous effort to improve and modify delivery of e-service options to Canadian businesses, it expanded the use of the Business Number (BN) as a common client identifier for businesses to securely and efficiently interact with various levels of government. With close to 5.4 million businesses now registered with a BN, the CRA administers over 9.9 million program accounts with an additional 3 million program accounts being administered by other federal and provincial government departments.

The BN enables a coordination of request services (such as a change of address) across government departments and jurisdictions. The wider use of the BN will reduce the administrative burden for both businesses and the CRA. In addition to reducing red tape and facilitating compliance, the BN plays an integral role in the various CRA risk assessment systems by ensuring the accurate identification of data for businesses.

5. CHALLENGES OF E-SERVICES

5.1. Financial Risk

In order to enhance the CRA's secure online services, resources and potentially significant funding investments are required. The costs associated with developing, implementing, and maintaining secure online services can be high, particularly if the CRA is developing new systems and infrastructure that it has not yet explored. There

are significant financial barriers that can inhibit the development and success of the CRA's SOLS Strategy.

Significant benefits and efficiencies may be achieved through enhancing the CRA's secure online services; however, spending within the CRA on e-service initiatives could be at risk when competing with other critical demands of its decreasing funding allowances. The CRA is not exempt from the fiscal constraints that continue to affect the globe, and has had to find reductions in its expenditures.

This financial barrier is a risk that can hamper the speed and the scope of progress on initiatives. There is also an asset value for electronic services if the CRA takes into account the real value in having easily available, visible, accessible, and secure online services. The value of this asset is strategically weighed against any cost of development.

5.2. Other Challenges

Although the SOLS initiative was conceived to explore new and innovative enhancements to the CRA's electronic service offerings, much work was already underway. Individual projects and initiatives are continually being explored to enhance service, improve usability, and provide a means to encourage and migrate users to more cost-effective electronic service channels.

Moore's law states that "The number of transistors incorporated in a chip will approximately double every 24 months." —Gordon Moore, Intel Co-Founder⁷

If the CRA moves beyond the law which is specific to processor transistor growth and apply this to technological advancements, it could stipulate that technology will outpace its ability to keep up with the changes. As technology improves, current systems and current changes become obsolete faster than change can be implemented. Therefore, the challenge of the CRA is to not only keep up with change but to try and stay ahead of it.

Canadians, like many populations, are a diverse group of people with individual needs and preferences. With the number of electronic services available to make it easier for Canadians to comply with their tax obligation, there is still a segment of the population that is resistant to embrace the many e-service options. Some prefer to do things "the old way" and file on paper. Others use commercial software, print their return and submit it with their receipts to avoid further interaction

⁷ Wikipedia http://en.wikipedia.org/wiki/Moore's_law

or contact with the CRA. The CRA's desire to increase take-up of electronic services to facilitate compliance is more than the challenge of offering exceptional service options or using the latest technologies. It is about changing behaviour amongst taxpayers and creating an appreciation for the various e-services that are available to make it easier for them to meet their tax obligation.

6. CONCLUSION

Taxpayers demand electronic service options that are fast, efficient, and convenient, yet protect the privacy and confidentiality of their information. The CRA will need to continue to invest in secure online IT solutions to respond effectively to those expectations. By capitalizing on technological innovations, the CRA strengthened its service to Canadians. The 2010-2011 fiscal year witnessed a 2.5% increase in self-service transactions by individual and business taxpayers, and benefit recipients and/or their representatives from a year ago. The public appetite for online services has been increasing with electronic filing rates for individuals and businesses continuing to trend upwards. The CRA continues to experience a steady increase in the number of taxpayers accessing its information and services.

The CRA is committed to providing and improving on the multiple service channels available to Canadians to make it easier for taxpayers to comply with Canada's tax laws. Improvements to service delivery enable taxpayers and businesses to provide correct information, which increases the CRA's accuracy in handling their files.

E-services facilitate the CRA's ability to administer tax, benefits, and related programs and help ensure compliance on behalf of Governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.

APPENDIX A**The CRA's Performance Measurement Framework –
Strengthening Service to Make Compliance Easier**

CRA Indicators	Current target	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Rating
Electronic services							
Electronic payments	Upward trend	19%	21.8%	24.1%	26.5%	29.7%	Met
Processing returns and payments							
Processing T1 individual income tax returns (electronic): within an average of 2 weeks	100%	1.6 weeks	1.7 weeks	1.6 weeks	1.6 weeks	1.7 weeks	Met
Percentage of GST/HST returns processed within 30 days	95%	98.5%	91.9%	97.3%	98.0%	90.3%	Mostly met
Processing T2 corporation income tax returns within 60 days	90%	Not applicable	92.0%	90.8%	92.8%	94.5%	Met
Processing excise tax, excise duty, and air travellers security charge return within 90 days	95%	98.1%	98.2%	99.0%	97.0%	97.6%	Met
Percentage of individuals who file electronically	Upward trend	50.6%	53.5%	55.8%	57.9%	60.3%	Met
Percentage of GST/HST returns filed electronically	Upward trend	14.5%	17.7%	22.2%	25%	41.3%	Met
Percentage of corporations who file electronically	Upward trend	14.0%	18.0%	21.5%	28.5%	46.8%	Met

ENDNOTES

- NETFILE** permits taxpayers to submit their income tax and benefit returns directly through the CRA Web site, using NETFILE-certified tax preparation software or a Web application. A taxpayer cannot change any personal information (such as address, or direct deposit information) using NETFILE. Personal information must be changed prior to using NETFILE. Taxpayers can make these changes online using My Account or by contacting the CRA.
- TELEFILE** allows eligible taxpayers to file their income tax and benefit returns for free using a touch-tone phone. It is designed for taxpayers with the most common types of income tax information, such as employment, pension or interest income, registered

pension plan contributions and charitable donations. To use TELEFILE, the taxpayer only needs a social insurance number, a completed tax return, and a personal access code. This service can be reached toll-free at 1-800-959-1110. It is available from mid-February until the end of September. First-time filers are not eligible to use TELEFILE.

- 3 **EFILE** permits authorized service providers to submit current-year income tax and benefit returns for their clients through the CRA Web site. Ninety-five per cent of Canadians are eligible to use EFILE. Some exclusions are: returns for non-residents, certain types of returns for individuals who have declared bankruptcy, and returns for those who are required to pay income tax to more than one province or territory.
- 4 **GST/HST NETFILE** – Is an Internet-based filing service that allows registrants to file their goods and services tax/harmonized sales tax (GST/HST) returns and eligible rebates directly to the CRA over the Internet. Registrants access the online forms and enter the required information. Once the data has been entered and the business confirms, a confirmation number is generated.
- 5 **GST/HST TELEFILE** – Qualifying registrants can use this service to file their GST/HST return using their touch-tone phone and a toll-free number. An automated telephone process prompts registrants to give their tax information using their telephone keypad. Once the data has been entered and the business confirms, a confirmation number is generated.
- 6 **GST/HST Internet File Transfer (GIFT)** – Is an Internet-based filing service that allows eligible registrants to file their GST/HST returns directly to the CRA over the Internet using 3rd party accounting software that's been approved by the CRA. Eligible registrants will generate and save an electronic version of their return and attach the file to a CRA page. Once attached, the CRA will perform preliminary checks and if all basic requirements are met, a confirmation number is generated. If errors are detected, the CRA will send an explanation of errors or corrections required; this means the return was not accepted. Therefore, the business must fix the errors and retransmit the return.
- 7 **GST/HST Electronic Data Interchange (EDI)** – This is a computer-to-computer exchange of information in a standard format. Eligible businesses can use EDI to file their returns and remit their payments electronically. In order to use EDI, the business must register with an approved financial institution or third party service provider. After registering, the business can provide the necessary return and payment information to the service provider through their own computer, phone on any other mutually agreeable method. The

financial institution of third party service provider will convert the information into an electronic return and/or payment that meets the CRA specifications and transmit the data to the CRA.

- 8 A **registered retirement savings plan (RRSP)** is a retirement savings plan that individuals establish, that the CRA registers, and to which an individual or their spouse or common-law partner contribute to. Deductible RRSP contributions can be used to reduce their tax. Any income earned in the RRSP is usually exempt from tax as long as the funds remain in the plan; generally individuals pay tax when they receive payments from the plan.
- 9 Since 2009, a **tax-free savings account (TFSA)** is a way for individuals who are 18 years or older and who have a valid Canadian Social Insurance Number to set money aside tax-free throughout their lifetime. Contributions to a TFSA are not deductible for income tax purposes. Any amount contributed as well as any income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn.

E-FACILITATION OF COMPLIANCE: TAXPAYER SERVICES VIA INTERNET

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Contents: Summary.- 1. The use of communication and information technologies to reinforce tax citizenship: A process engaged by the DGFIP for more than 10 years.- 2. Conclusion / Perspectives

SUMMARY

The COPERNIC program, Launched in 2001, is part of a global dynamics of state reform.

It was conceived to accompany the tax administration transformation towards an administration of services better able to achieve its performance objectives. Its purpose was thus to bind the efficiency of the administration and the effectiveness of the tax collection with the quality of services delivered to the user.

The four key objectives of this transformation are as follows:

- To improve services to the users,
- To provide tax administration officers with adequate tools for their missions,
- To reinforce the tax efficiency, by improving the tax collection return
- To reinforce tax efficiency, by providing the best cost for the services.

The transformation of the tax administration into an administration of services had as purpose to place the citizen at the front stage. It is based on the installation of devices facilitating attention to users and flexible interaction between users and administration, particularly through the recourse to dematerialization technologies and management of contacts.

But it is very clear that, for the tax administration, the Copernic program is not an aim in itself; it is part of the broader scope of a basic reflection on the improvement of "tax citizenship". The citizen is liable for a certain number of obligations. The role of our administration is to help the citizen to fulfill them by bringing simple, serious and effective services.

Among the instruments available to undertake this revolution, new technologies have been definitely one of the most interesting levers. That is shown by the correlation between the increase in the uses of the e-Procedures and the curve of increase in tax citizenship, for the private individuals as well as for companies.

Finally, it is relevant to specify that at the time of the development of the online services and to allow a service of quality, the Copernic program has developed in back office a new more powerful information system, centralizing all the taxpayers' data. It is on this new national and centralized system that the new control functionalities are developed.

1. THE USE OF COMMUNICATION AND INFORMATION TECHNOLOGIES TO REINFORCE TAX CITIZENSHIP: A PROCESS ENGAGED BY THE DGFIP FOR MORE THAN 10 YEARS...

The development of on line services to users within the framework of the multiannual program COPERNIC for the reform of the tax administration information system has 4 objectives:

- To reinforce tax efficiency (providing the services at best cost).
- tax effectiveness (to improve the tax collection),
- To provide the agents with adequate tools,
- Improvement of the services provided to the users to favor tax citizenship.

Within this framework, the tax authorities want to be accessible through a multiplicity of channels: face-to-face, telephone, Internet in order to allow the user to simply and easily assess his overall tax situation and to remotely complete all his operations.

Regarding the online services, the approach has been differentiated according to whether the target users were individuals or professionals.

... For the individual user, a wide range of services helps him to fulfill his/her principal tax obligations via Internet...

For this reason many services were developed to allow completing the major tax processes

- Tax account consultation (by allowing access to the data available in the information system of the administration, the dialogue administration/user is made easier);
- Online income tax return filing;
- Pre-filled declaration of certain types of incomes: salaries, pensions, financial placements...;
- Online payment of the totality of taxes: income tax (IR), housing tax (TH), land tax (TF)...;
- Online handling of the monthly payment contract or payment at due date of the principal taxes (IR, TH, TF...);
- access to tax documentation;
- downloadable tax returns forms;
- simulation module of income tax calculation;
- On line claims.

These services imply simplifications for the user compared to the paper format.

- more complete pre-filling of the declarative documents;
- Users don't need to send the supporting documents of tax deductions;
- additional terms granted for the income tax return and tax payment;
- A two-year incentive in the form of a tax reduction of 20 euros which ended in 2008.

...And a commercial and marketing approach:

Each year an analysis of the users' behaviors and expectations is carried out to adapt services offer and to encourage the use of the online services

Examples of evolutions induced by the market research:

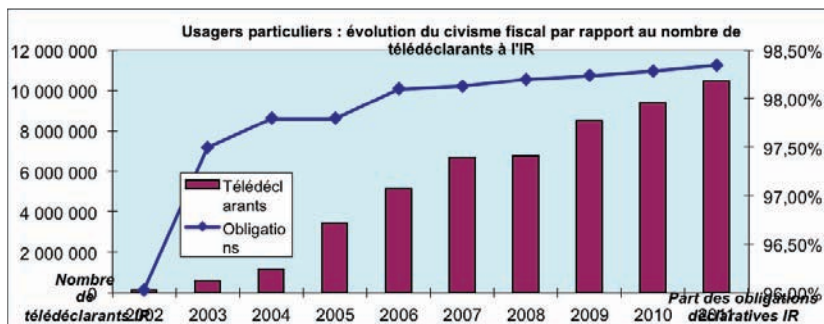
- Access without certificate: perceived as a simplification to reach the online services => 90% of the users in 2011;
- Letter sent to people over 18 who are part of a tax household thus future taxpayers => 82% of the first time declarants chose the e-return statement ("télédéclaration") in 2011;
- after completing the tax return online form, a direct link to the online payment site for the modulation of the monthly payments or the subscription of contracts of monthly payment for the tax payments;
- an addenda is joint to the income tax installments notices and the tax notices for the taxpayers not using a modern means of payment;

- A letter for first-time taxpayers not subjected to the installment and who do not benefit from an automatic debit contract.

The use of the online services is in constant progression

- 10 million consultations per year of the tax website by individuals were recorded;
- The number of online income tax returns (IR) rose in 2011 to more than 12 million versus 10.5 million in 2010, which corresponds to a progression of almost 15%. The rate of fidelity amounts to 84.8%, representing a progression of 1.6%;
- 1/3 of the tax returns are submitted via Internet;
- a significant increase in the use of the online payment service was noted in 2011:
 - New adhesions
Nearly 660.000 new adhesions to the automatic payment at due date or monthly payment on the individuals general taxes (IR, TH, TF), which represents an increase of 23%;
 - 560.000 modulations of contracts in 2011 (+ 155%) in order to allow increasing or decreasing the automatic debits;
- 350.000 contacts to the online assistance in 2011 (- 25% compared to 2010), i.e. 3% of the number of taxpayers submitting e-returns.
- **The expected improvement in term of tax citizenship is present**

The graphic hereunder shows over the 10 last years the correlation for the individual taxpayers between the curve of increase in the users of the online services and, over the same period, the increase in tax citizenship measured from the percentage of spontaneous tax returns statements.



Individual users: Evolution of tax citizenship in relation to the number of online tax returns statements for the income tax.

As a consequence of these results, the policy of online services offer will be increased.

The success of an offer policy is based on a constant updating of the answers to the users needs; this is why new services must be developed each year.

For this reason, the year 2012 will focus on the development

- of a gateway (“Co-branding”) to the website of the online administrative procedures (www.mon.service-public.fr) which will allow simplifying further the procedures while benefitting from the offers of services of the other French administrations;
- of a new service allowing the users to take and follow on line their requests to the DGFIP: notifications of address changes, marital status, requests for information on taxes or payments, complaints about tax calculation, requests for terms of payment...;
- possibility of completing on line the corrected returns statement out of the regular timeframes for the income tax return statement=> objective: to reduce the litigation;
- Payment via Smartphone by flash code.

For the professional user, the development of online services was based on a normative policy imposing the use of e-procedures in return for a wide range of services ...

- **The legal framework has defined a progressive path, over 10 years, towards a generalized obligation to use e-procedures for all the companies subject to a real taxation regime.**

Today: The companies with a sales turnover above 230.000 euros have the obligation to use e-procedures for submitting their returns and for the payment of the value-added tax (VAT), the corporation tax (IS) and the salary tax (TS).

Tomorrow, the lowering of thresholds will continue:

- 2012/2013: All companies subject to the corporate tax.
- 2013/2014: Companies having a sales turnover above 80 000
- 2014/2015: All companies
- **On the other hand, virtual channels diversified and adapted to the situation of each typology of companies are being developed...**

Two dematerialization channels are being developed:

- The EFI (exchange of data files): Internet procedure itself.
- EDI (electronic data interchange): refers to file transmission between servers. EDI partners are companies bound by contract to the administration. The EDI chain is more used by small-size businesses which delegate the totality of their bookkeeping to external accountants. However, some very large companies (Renault, EDF...) are their own EDI partner.

... And an extended range of services

On Internet (mode EFI): access to the online services via a subscriber space which allows safely to

- **declare and pay the principal professional taxes:**

- to declare and pay the VAT;
- to file a request for VAT credits reimbursements
- to pay the main professional taxes: the corporation tax, the fixed annual tax, the payroll tax, the territorial economic contribution (tax on the added value of companies (CVAE) and business real estate contribution (CFE)) and the land tax.

- **to consult your company tax account company or your customer company (for example, for an accounting firm):**

- to see all the tax returns and payments
- to follow the requests for reimbursements of VAT credit
- to obtain a tax certificate for competing in a public bidding

- **to performs and follow requests**

- to ask for a VAT credit reimbursement in the European Union

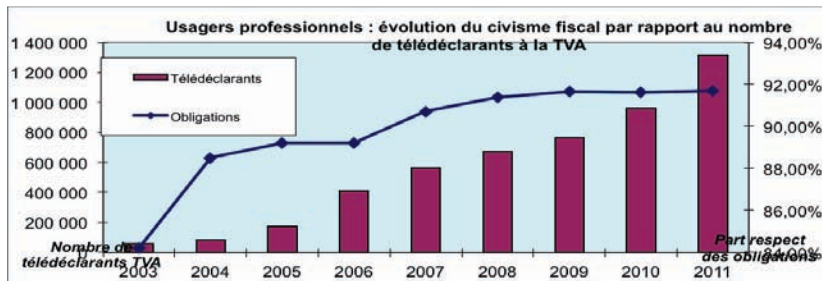
- **elements in figures**

- Online filing of the tax data (TDFC): 2.5 million users (70% of the companies).
- VAT: 1.2 million subscribers in 2011 (+ 36%) of which:
 - 55% on an optional basis and 45% on a mandatory basis;
 - 55% of EDI users and 45% of EFI users;
 - 84% of the VAT total revenues: 148 M€.
- IS/TS: 1.2 million online payments of IS and TS were received in September 2011, i.e. a progression of 444%, compared to 2010, related to the lowering of the threshold of the legal obligation.

- 1.2 million Consultations of the professionals tax account (10 million pages) versus 550.000 in 2010 (+100%). The effectiveness of the strategy of offering a wide range of services yields here a concrete translation. Each creation of a new service benefits to the use of the already existing services.
- 150.000 tax certificates are delivered on line, i.e. nearly 50% of the total delivered.

The increasing autonomy of the users in their process allows a decrease in the requests to the Companies Tax services.

- **Even if they were obtained through legal constraint, improvements in terms of tax citizenship of the companies are noted as expected.**



Professional users: Evolution of tax citizenship in relation to the number of online tax returns statements for the income tax.

2. CONCLUSION / PERSPECTIVES

To associate the improvement and the modernization of the user service with the development of tax citizenship is possible. In this framework, the use of new technologies is a powerful engine. But in order to make this improvement permanent it is advisable to be adapted to the evolutions of the users and to have a real policy of services offer fast adapting to the society evolutions

Finally, it is relevant to specify that it is at the moment of online services development and to allow a service of quality, the Copernic program has developed in back office a new more powerful information system, centralizing all the taxpayers' data. It is on this new national and centralized system that the new tax control functions are developed.

e-CONTROL OF NONCOMPLIANCE

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Contents: I. Executive Summary- II. The Modern Tax Administration Efficiency and Compliance Control. -III. Virtual Office in the Dirección General de Impuestos Internos (DGII).-IV. Concluding remarks and dominican learning experience

I. EXECUTIVE SUMMARY

The objective of this document is to present the experience of the Dominican Republic's Tax Administration in the use and integration of information technologies, focused on using the Internet to facilitate taxpayers compliance controlling, reduce tax processes costs and improve the service offered to taxpayers; all this initiatives aiming to increase voluntary compliance and collect the revenue required by the Dominican State.

As part of the Dirección General de Impuestos Internos (DGII) strategic planning conceptual framework, the use of information technology and communications (ICT) has been a key element that gives consistency over time to increase the levels of compliance. The technology should become a balancing factor to design simple processes but with sufficient controls to preserve compliance and transparent action by officials.

In 2004 DGII starts implementation of the Virtual Office project as a tool designed to facilitate compliance and transaction processing of taxpayers, but also, and this part has been essential, as a tool to design management models for tax compliance control based on automated actions.

Since the beginning of the project, the DGII stated that the main features of this platform are that transactions are conducted in real time without batch processes to post transactions in the taxpayer

master files and that all records are stored on a unique Database.

The development of virtual office with these characteristics has allowed the online update of the current account of the taxpayer, through which the taxpayer can view the balance, the kind of tax paid, the Detail of the payment (principal and penalties), and even review information provided by third parties. This represents a significant achievement in terms of transparency.

Currently 89% of income tax and 88% of IVA taxpayers, main contributors to DGII collection, are using the Virtual Office; the results achieved validate this platform as a mass medium of interaction between the Tax Administration and taxpayers.

II. THE MODERN TAX ADMINISTRATION EFFICIENCY AND COMPLIANCE CONTROL

An essential part of the Tax Administration mission is to create mechanisms to control efficiently and effectively the compliance by taxpayers. To ensure implementation of these mechanisms is essential to know the factors that affect levels of compliance and therefore revenues, allowing focalized actions on those elements that tend to impact significant levels of compliance.

In the Tax Administrations of countries with the lowest degree of citizen's moral / ethical tax¹, is more important to establish strategic initiatives, both to promote voluntary compliance, as well as, on compliance induced by the increase in risk perception. In this context the Tax Administration must make clear the role of technology to address the issue of increasing revenues by reducing the noncompliance levels.

In the case of the DGII, the role of technology has been established due to its importance to the consistency of taxpayer compliance over time.

According to DGII opinion, two factors explain the level of compliance and consistency of it in tax administrations over time: The level of institutional performance and level of technological performance. To achieve compliance increasing is required to achieve high performance levels in these two factors.

¹ *The concept of moral / ethical tax refers to the norms, perceptions, that determine the citizens honest or right behavior regarding their obligations as taxpayers within tax laws and regulations.*

The level of institutional performance represents the capabilities that the Administration has to meet its goals and objectives in the short, medium and long term.

This dimension covers aspects such as the society perception y about the organization effectiveness, aptitude and attitudes of its human resources, organizational culture , the quality of their performance in the field of ethics, the perception of risk with taxpayers and the credibility of the leaders of the institution to maintain positions and influence in society.

By the level of technological performance we mean the ability to make use of technological tools acquired and developed by management, aligned with the strategic objectives of it. This dimension includes the effective use of technology to improve the work of tax administration, ensuring compliance with the obligations of taxpayers and return on investment in the short or medium term.

Graphic I.I. Level of Administration Tax Performance²



As we see in the diagram, there is a direct relationship between the level of inefficiency of a Tax Administration in carrying out its control functions and levels of evasion. An administration that is not running effective processes of monitoring and compliance facilitates evasion.

² An integral part of strategic planning of the DGII Conference of the Director General of Internal Taxes, Juan Hernandez Batista, 40th general assembly of the Inter-American Center of Tax Administrations (CIAT) Florianópolis, Santa Catarina State, Brazil, Tuesday April 4, 2006

When the Tax Administration does not exercise properly auditing and collection, the beneficiaries of this failure will be those who do not pay, while those with a high level of compliance is placed at a disadvantage against those who not pay. This unequal treatment results in violation of the principle of tax equity.

In this context, technology must become a balancing factor to design and implement simple and cost-efficient procedures, with but with sufficient controls to preserve compliance and transparent action by officials. . Balance between facilities and controls.

That is DGII's Virtual Project Office purpose, as a tool designed to facilitate compliance and transaction processing of taxpayers, but also primarily as a tool to design management models for tax compliance control based on automated actions.

III. VIRTUAL OFFICE IN THE DIRECCIÓN GENERAL DE IMPUESTOS INTERNOS (DGII)

The virtual office implementation process begins in 2004, with an electronic transactions portal named Virtual Office (URL <https://www.dgii.gov.do/ofv/login.aspx>). On this site, taxpayers can conduct transactions and make use of the services available 24 hours a day.

While the Internet is an excellent “tool or instrument” when it comes to facilitating procedures and therefore the taxpayer compliance, it is also an important way of ensuring quality and timely data processing for DGII, and promote innovative and creative management practices within our organization.

That is the reason why along with service objectives that were raised to achieve from the beginning, the Tax Administration also pointed out objectives designed to make significant changes in the organization from a new way of performing the procedures.

This is how the goals were identified in the areas of service improvement and control procedures.

a) Objectives of Services:

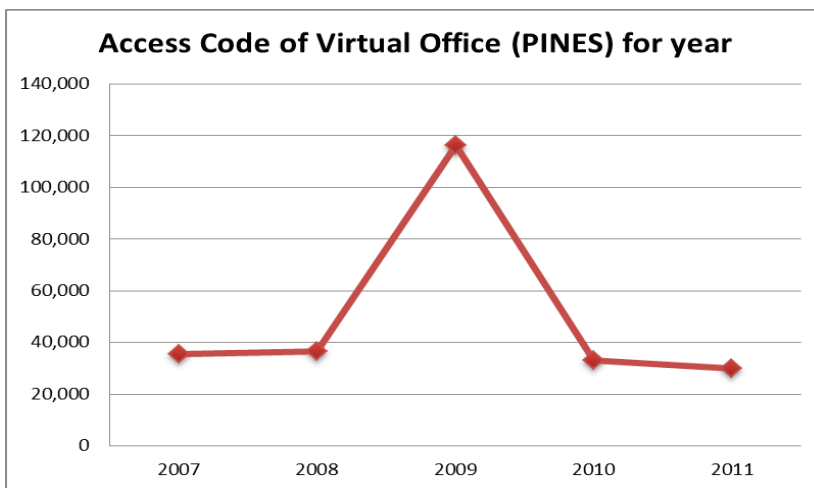
- Extend Support and Information Services with an office available 24 hours a day, seven days a week, without waiting attentively, from anywhere with Internet access inside and outside the country.
- Increase the “locations” at taxpayer’s disposal without creating new offices and hiring more staff.

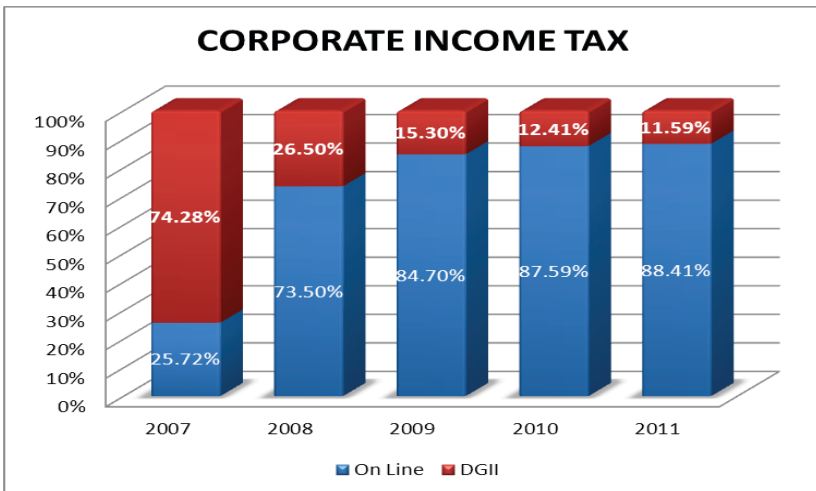
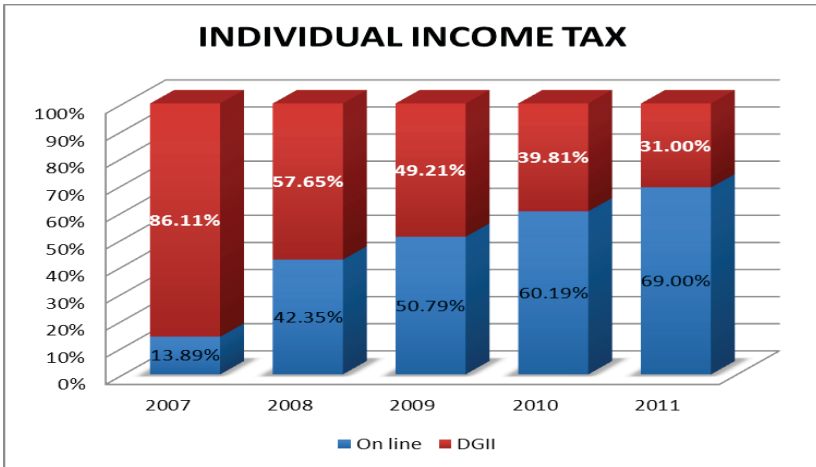
- Allow self-assessment is a minimal control of the data that is to prevent employees of the Internal Revenue review the statements that were submitted prior to placing obstacles to taxpayers.
- Minimize taxpayer's compliance costs.

b) Objectives Process Improvement:

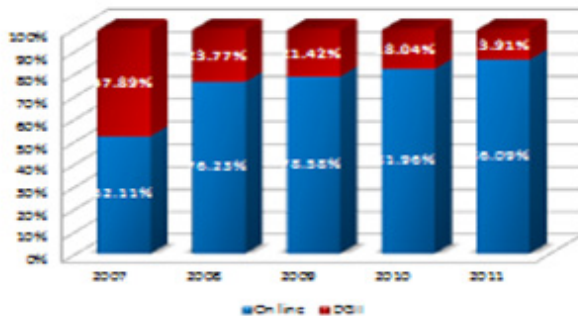
- Facilitate communication turning the Virtual Office in the most appropriate media of communication between DGII and taxpayers.
- Reduce the costs of document storage (physical space and procedures), replacing paper for digital storage. Digital storage costs tend to decrease over time.
- Ensure quality and timeliness of data processing.
- Optimize the audit capability with the use and management of taxpayer information, besides allocating DGII resources for these purposes.
- Strengthen control mechanisms, in particular by facilitating the massive sending / receiving information on expenses and purchases that are deductions or credits of tax returns and income. Also any electronic information required by DGII.
- Reduce time to taxpayer information on noncompliance, errors, and penalties...

Since then the main results in the use of DGII were as follows:





VAT



These results serve to identify that DGII has a universe of 251, 737 Taxpayers using the Virtual Office, this is approximately 60% of people who present their tax in the DGII, but it is up to 86% VAT, 69% Individuals and 88% Corporate Income Tax. This group can participate in the electronic management through the Virtual Office, to be described later.

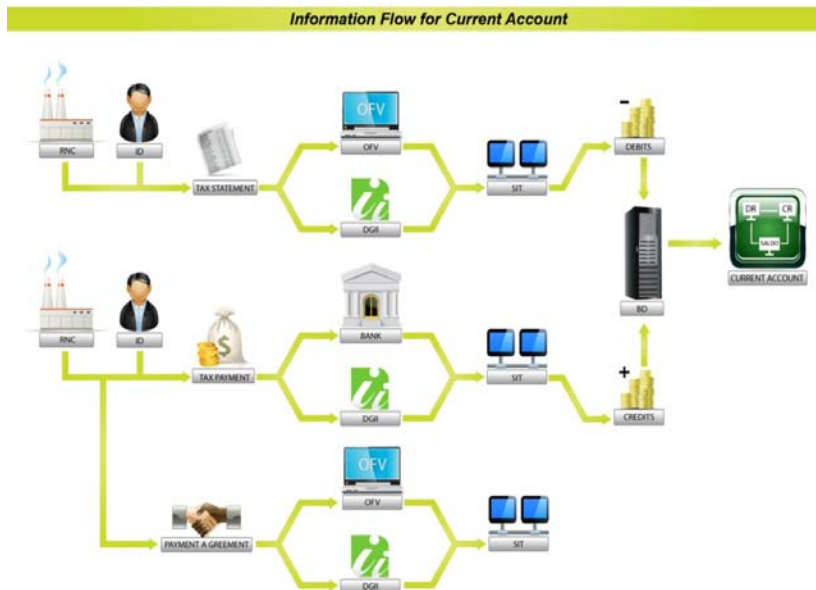
One of the main features of the Virtual Office is that transactions are posted in real time. There is no batch processing, and all records are stored in the production database of the DGII. For the DGII, this facilitates the preparation of reports to detect noncompliance and guaranteed the reliability of current account data to identify noncompliant and default taxpayers.

Regarding tax payments, it is important to note that when submitting electronic filing, the application generates an authorization number with which you can make the payment using Internet Banking or physically in the country main commercial banks, being one of the most significant achievements in cost reduction and process automation.

Early detection of debts and non-compliance is consequence of DGII conception in the development of information systems, which are based on real-time transactions and operating an integrated manner. The most important advantage for the Tax Administration is that there are only electronic records, not duplicated electronic documents by paper; otherwise it would become a failed modernization effort. In this way, at the same time a taxpayer declares Virtual Office and make payment through the banking network, either over the counter or by transferring funds into your account or transactions in the transaction portals of various banks, records are updated in the "current account" of the taxpayer and therefore the employee of the Internal Revenue and the taxpayer may identify its balance, its concept, the amount in taxes and penalties and interest if any.

This avoids duplication of efforts and reduced operational burden by control officers, leaving only the tasks in controlling and monitoring obligations of taxpayers. Also, this is a very important result from the point of view of transparency of the process because the taxpayer can view their current account online, view the payments made and even check the information provided by third parties.

Graphically this is how the current account operates in the basic cycle of taxpayer compliance³



With this we avoid or reduce the perception that the computational process can be manipulated in any stage, because taxpayers can validate the accuracy of the information at any link in the process. This also eliminates typing errors that can be generated by the staff of the Tax Administration, as they do not intercede in data manipulation statements, payments and transactions within the account.

DGII's strategy of using the Internet through the Virtual Office has followed two cycles that are currently held in parallel, given the consistent need to implement new services.

a) Operational Cycle. That has to do with the possibility of the taxpayer to meet its obligations through the Virtual Office, such as: state, obtain authorization to pay, send information, and consult your data.

b) Control cycle. Covers the communication with the taxpayer using available information, provided mainly by the "current account" but also other control systems.

³ *Entendemos por cumplimiento básico la declaración voluntaria de cualquier impuesto y pago del valor resultante de esta, así como el pago de los anticipos del Impuesto Sobre la Renta.*

This time we show the results of eDGII regarding compliance control process improvements and characteristics, what we call electronic management or “eControl.”

The control phase through the Virtual Office starts with the creation of a mailbox that has a “message box” for general information purposes and a “notifications box” as a space equivalent to a fiscal virtual address, defined as the space used by the Internal Revenue and the taxpayer to receive and/or send electronic notifications for which the taxpayer has fulfilled all authentication mechanisms.

The fiscal virtual address is equivalent to the physical address, listed in the Tax Code and the electronic notifications have the same legal validity. This mailbox is created with a view to enhancing the effectiveness of control actions implemented within the Virtual Office; from reducing the time of delivery of information, citation, notification etc., from the time the DGII identifies the need to do so until it is published in the mailbox.

The mailbox serves as a feedback mechanism to the taxpayer not only in regulatory and assistance aspects , but also as a warning about violations. Since July 2011, each month, as the first step in the control processes , the taxpayer is informed of the noncompliance. This means that while we place the mailbox creation as part of the control stage, is extremely useful for improving the mechanisms of communication with the taxpayer

The DGII General Ruling 03-2011 issued on use of electronic transactions on April 4th, 2011, establishing all valid concepts and criteria for using in the Virtual Office of the DGII of Digital Document and Data Messages tax Procedures established by Law 11-92, which establishes the Tax Code of the Dominican Republic and , the other laws which amend and supplement, with respect to the relationship and communication between tax service users and the tax administration..

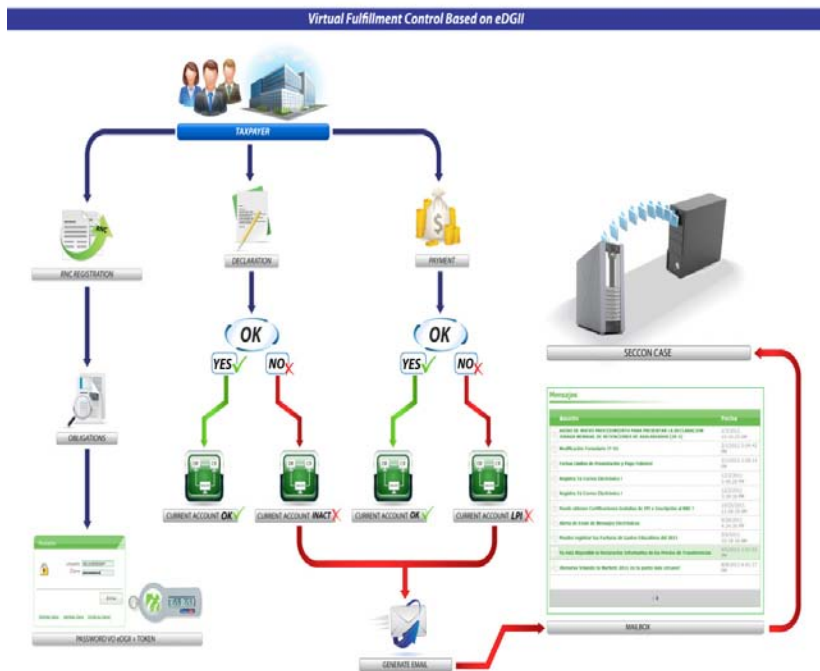
At the same mailbox are also published notices and official documents that initiate the enforced collection procedure. Ruling 03-2011 also establishes mechanisms to ensure the authenticity of transactions through the Virtual Office by digitally sign electronic notices of debts, findings resulting from audits and other types of documents, which improve the efficiency and effectiveness of the notification process.

Since the Virtual Office implementation up to 2010 users could access the virtual office services using the Tax Identification Number (TIN), using the password that was generated automatically by the system,

stored in the DGII systems (using an algorithm encryption), and sent to the taxpayer applicant through email.

In 2011 with the General Ruling 03-2011 Tokens⁴ were implemented to improve virtual office security and access authentication. The deployment of the tokens began with the National large taxpayers, late will cover Regional Large Taxpayers. For the small and medium it's been deployed a card codes system.

The process is executed as follows:



When the taxpayer is registered gets a password and a codes card or token for the virtual office transactions authentication process.

The existence off a notifications mailbox reduces the taxpayer information time about a noncompliance. This means that two (2) days after the expiration of the deadline for compliance with any obligation, the computer systems send a message to taxpayers who have failed to fulfill them.

⁴ Token: A device that displays an alphanumeric code, usually six (6) digits. This code usually changes every sixty (60) seconds, therefore can't be reused, it serves as a means to authenticate a user and thus forms part of the non-repudiation mechanisms.

On January 22, 2012, for example, two (2) days after the deadline for paying the VAT, 2.835 of taxpayers who promptly declared this tax, but made no payment, received a message in your mailbox virtual office, like this:



Meanwhile, at the notification mailbox we published documents that must comply with legal process delivery and generation of a definite date of delivery from that statutory deadlines are established in each case. The General ruling 03-11 on the use of electronic means, sets a certain date as follows: “Day, month, year and time (hour, minute and second) since authentication process for the virtual Office is performed with the user and password and / or any complementary authentication mechanism to access a notification, which can be determined reliably receipt of a notice or other document issued by the Tax Administration at user or taxpayer. The time of receipt and / or income, as applicable, is the date from which the computation starts with the term of fulfillment of tax obligations in question. This is equivalent to the chronological timestamp.”⁵

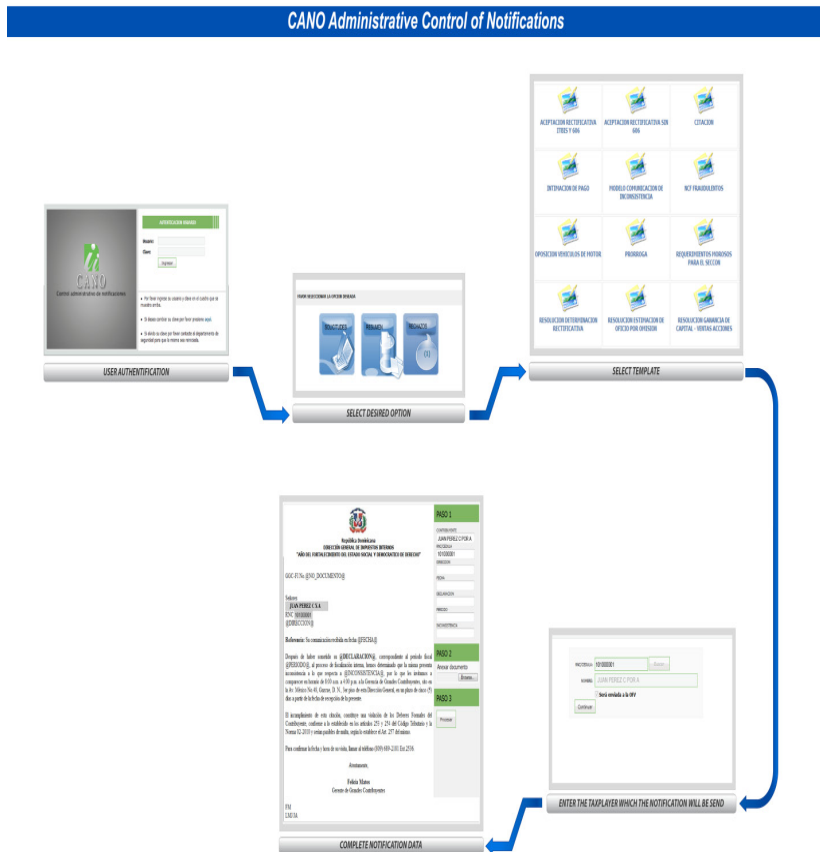
This option is related to a system developed to generate documents followed by and authorization process, digitally sign documents⁶ and later automatically publish in the mailbox. .

⁵ See Article 2: Definitions of that General Ruling

⁶ These documents are subpoenas, summons payment, breach notifications

TOPIC 1.2 (Dominican Republic)

The continuous cycle that has two parts, the first where the employee in charge of make the document process it and the second, in which his superior reviews and approves it. In this part the document is digitally signed and appears in the mailbox notification of the taxpayer.



This process is based on identifying all models in the various areas of the DGII to communicate to taxpayers, debts, determinations, errors, etc. in order to create them as templates in a system. This system allows completing, and following a cycle approval and be signed digitally and “publish” on the taxpayer or recipient’s mailbox.

When a taxpayer enters the Virtual Office, the system shows a message informing the taxpayers that a notification it’s been publish in the mailbox. The taxpayer can’t perform any other activity, just reading the notification... As shown below:



Sending the documents to the taxpayers using de mailbox, processing times will decrease significantly and eliminates the risk of not locate the taxpayer.

IV. CONCLUDING REMARKS AND DOMINICAN LEARNING EXPERIENCE

DGII processes have been revised to conform to a modern and efficient Virtual Office, both those that relate directly to the taxpayer and control processes in tax compliance. This is the only way successes in the field of Internet use will endure. Transforming the process is what allows the organization to evolve to a higher status is required to have the fundamental support of ICT and now more than ever on Internet-based solutions.

An organization that values technology as a strategic resource must meet to structure a management of technology resources to enable to achieve what we call high-performance technology. This is based on three aspects:

- Keep ICT projects aligned with strategic objectives of the organization: The technology must serve organizational objectives.

- Implement an ICT management model based in maintain excellent levels of availability and reliability that transforms the information systems developed in credible tools developed for internal and external users.
- Make ICT part of the work of employees of the organization in carrying out their tasks.
- One aspect that has to be considered is how to approach the Internet use and the creation of Virtual Offices not exclusively from the perspective of the service, also should be conceived as a control tool.

Finally, it is important to note that to eControl strategies be effective is essential to develop an integrated information system, that is based on the same standards and platform, always using the same database, the same identifier and avoiding the isolated solutions temptation that solve specific problems. These aspects ensure that the use of technology in DGII is systematic, safe and consistent.

e-CONTROL OF NONCOMPLIANCE

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***Contents:** 1. Introduction: a brief description of the workings of the Tax and Customs Administration of the Netherlands.- 2. Compliance risk management strategy.- 3. Compliance risk management of income tax in the Private Individuals segment.- 4. Compliance risk management in the SME segment.- 5. Tackling system fraud systematically*

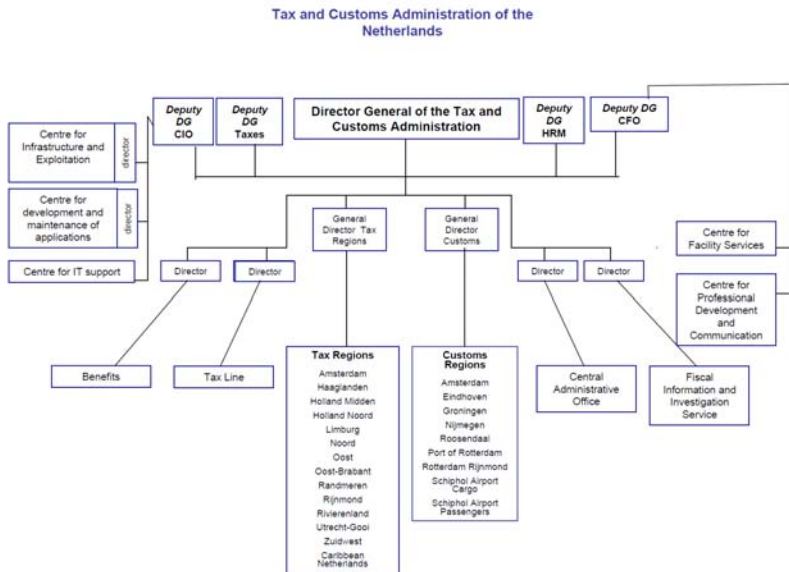
1. INTRODUCTION: A BRIEF DESCRIPTION OF THE WORKINGS OF THE TAX AND CUSTOMS ADMINISTRATION OF THE NETHERLANDS

The Tax and Customs Administration is responsible for:

- execution of the collection and recovery of the government taxes and customs duties;
- inspection of those aspects concerning safety, health, economy and the environment by the import, transit and export of goods;
- collection and recovery of the employee and social security insurance premiums;
- execution of the income-related contributions under the Healthcare Insurance Act;
- enforcement tasks in the area of economic regulation and financial integrity;
- setting the levels of benefits and paying out benefits;
- collection and recovery for third parties for a number of taxes, duties and other receivables.

Around 29,000 people are employed by the Tax and Customs Administration in the primary and support processes.

The chart below gives a summary of the Tax and Customs Administration's organisation:



The Tax and Customs Administration fosters compliance by delivering appropriate provision of services, by exercising adequate supervision and, if necessary, by enforcing the observation of administrative and criminal law. In its dealings, the Tax and Customs Administration places both citizens and businesses in a central position and assumes an attitude of trust where this is rightfully deserved. The Tax and Customs Administration matches its manner of enforcement to the attitude and motivation of the citizens and businesses regarding compliance. From the variety of instruments available, the Tax and Customs Administration chooses those which contribute the most in terms of compliance. This is called enforcement management. This undertaking is therefore aimed at influencing behaviour. Moreover, as many processes as possible are being digitalised and standardised.

Compliant behaviour manifests itself in:

- registering oneself (rightfully) as taxpayer;
- filing one's tax return (on time);
- filing one's tax return correctly and fully;
- Paying (on time).

References made in this document involve the mass segments in the compliance strategy of the Tax and Customs Administration. Hereby the focus lies with the Tax and Customs Administration's task of the collection and recovery of government taxes; (because of the link with

income-related benefits, some attention will also be given to benefits in this document). Firstly, a general explanation is given of the compliance strategy, followed by greater detail concerning the approach used for the two mass segments for the Tax and Customs Administration: private individuals and SMEs (Small and Medium Sized Enterprises).

Finally, the approach to systematic fraud in these segments is explained.

2. COMPLIANCE RISK MANAGEMENT STRATEGY

2.1 General

The set-up of the compliance risk management strategy is based on influencing / improving the compliance behaviour. In order to achieve the compliance objective as effectively and efficiently as possible, the Tax and Customs Administration has a broad range of enforcement measures available (which can be split roughly into supervision and service provision instruments) and is required to make choices under its enforcement task: choices concerning fiscal subjects, target groups, enforcement instruments to be used, etc. Making choices takes place according to the concept of compliance risk management.

Compliance risk management: the conscious and considered choice, based on knowledge concerning subjects, surroundings and risks, together with the help of costs and benefits analyses, for which instruments (and in which combination and to what depth) should be used in order to achieve the compliance behaviour, or otherwise to support good behaviour. It is crucial to choose the approach that provides the greatest possible effect with the least possible means. This concerns not only the fiscal risks and financial interests, but also issues involving political and social impact.

Critical success factors of the approach include:

- Horizontal
- Current
- Visible
- In collaboration with other enforcers.

2.2 Intelligence

Because the Tax and Customs Administration makes an express link between the efforts and the intended effect (compliance), it is important that the Tax and Customs Administration not only has

knowledge concerning the fiscal risks, but also concerning the attitude and behaviour of taxpayers and the risks hereby involved. Since the masses represented in the Private Individuals and SME segments effect the set-up of the supervision and the choices to be made in the enforcement, and the capacity for processing within the Tax and Customs Administration is insufficient to be able to deal with all fiscal risks, then knowledge is crucial in order to be able to make the right decisions regarding enforcement.

Intelligence is gathered and used in a variety of different ways:

- Random checks
- Strategic segment surveys
- Internet data
- Selection modules
- Use of foreign data
- Investigation and use of internet data

With regard to the mass segments (Private Individuals and SME), this intelligence is gathered at segment level and processed into client images for taxpayers and groups of taxpayers that have a particular fiscal-economic or social characteristic in common. The client image contains not only fiscal information, but also information about the level and impact of non-compliance as well as information about the behaviour and motives of taxpayers.

3. COMPLIANCE RISK MANAGEMENT OF INCOME TAX IN THE PRIVATE INDIVIDUALS SEGMENT

The Private Individuals segment is a mass segment. The Tax and Customs Administration is keen to raise the self-sufficiency of citizens. Supervision of compliance will be carried out increasingly through thematic, targeted actions whereby the input from computerised work plays an important role. The following is a description of compliance risk management according to the four elements of compliance.

3.1 Correct registration

Internally the Tax and Customs Administration maintains a well-run file management system. In relation to taxpayers, the Tax and Customs Administration links up with life events in order to call for a correct registration, for example in case of divorce or of being a career. Correct registration is the first step towards a correct tax return. Correct registration is also important in identifying unknown taxpayers as quickly as possible.

Information acquired from third parties plays a most important role hereby: information from foreign tax departments is acquired concerning holders of foreign savings accounts and also, for example, people receiving foreign pensions are matched against the files of taxpayers.

3.2 Filing tax returns on time

The Pre-filled Tax Return represents an important step in the development towards greater self-sufficiency and this will be expanded increasingly by the Tax and Customs Administration over the coming years. During the months leading up to 1 April (the date by which the income tax returns should be filed), the Tax and Customs Administration calls on taxpayers to file their tax returns on time and refers explicitly in relation to this to the convenience of pre-filled tax returns. Through good collaboration with external parties, such as employers and banks, the Tax and Customs Administration receives as much data as possible on time, which can then be pre-filled in the tax returns.

3.3 Filing tax returns correctly and fully

The Tax and Customs Administration wants to stimulate citizens as much as possible to file their tax returns correctly and fully. To this end, besides the inspection and selection of tax return on the basis of risk criteria, the Tax and Customs Administration also uses various means of communication. One example hereby is the annual announcement of the inspection theme for the tax year in question and another example is the active reporting of which data the Tax and Customs Administration has already obtained.

Information from third parties has a completely new character in the Pre-filled Tax Return: ranging from contra-information, which is exclusively for use by the Tax and Customs Administration in the inspection of tax returns, through to presentation to the citizens for checking and providing additional information. By 2015, the Tax and Customs Administration wants to pre-fill the income tax returns of 80% of taxpayers for 100%. This approach is being combined with the automatic correction of those tax returns showing differences arising from information from third parties. A permanent learning circle ensures that the data from third parties is continually improving and this requires forms of meta-supervision from the Tax and Customs Administration.

Tax returns are dealt with from a variety of viewpoints:

a. Themes

An inspection theme is set annually; the Tax and Customs Administration pays extra attention to this theme when dealing with the tax returns, by matching the data in its own files with data arising from third parties. The theme is chosen on the basis of intelligence from random checks, for example. The theme for the year 2012 is "salary data": the Tax and Customs Administration will therefore be checking extra carefully whether the salary data has been filled in correctly. Random checks have shown that it is not uncommon for taxpayers to make mistakes in this area, usually due to carelessness or lack of knowledge.

Previous inspection themes included:

- Filing the tax return on time (2011)
- Unjustified use of the private use of company cars (2010)
- Tax allowance for children under 30 years old (2009)

b. Dealing with tax returns emitted as a result of contra-information, selection and random checks

The Tax and Customs Administration matches the tax returns that have been filed with any available contra-information arising from third parties, risk selection criteria and its own files, as well as carrying out random checks this matching is carried out completely automatically and leads to the so-called emissions. The emitted tax returns are then assessed by fiscal experts. The Tax and Customs Administration receives around 7.5 million tax returns annually. Between 450,000 and 650,000 of these are dealt with by tax experts as a result of emission (we call this the "traditional approach").

The policy is aimed at reducing the number of tax returns that are dealt with traditionally and to increase the use of other forms of enforcement (such as the themes and the targeted approach described above under a).

3.4 Paying on time

Non-compliance includes both not paying on time as well as not paying at all. The Tax and Customs Administration is using a new enforcement instrument for private individuals: the government claim. By means of a government claim, overdue yet relatively small tax debts up to EUR 500.- can be deducted directly from the taxpayer's bank account. The results of the government claims in 2009 and 2010 were as expected:

on average 50% of the collections were successful and, moreover, taxpayers with tax debts have become aware of the measure. The use of the government claim was introduced nationally by the Tax and Customs Administration in 2011, although use of this application is currently limited to the collection of road tax.

4. COMPLIANCE RISK MANAGEMENT IN THE SME SEGMENT

In 2010 the Tax and Customs Administration used a number of different supervision projects in the SME segment. The intended effects on the compliance are described in terms of correct registration by taxpayers, correct and complete tax returns, as well as the filing and paying of the tax returns on time by taxpayers. All the supervision projects started in 2010 are aimed at achieving one or more of these effects. By the end of 2010, EUR 970 million worth of corrections were applied in the SME segment through national supervision projects.

Within the SME as a whole, the Tax and Customs Administration distinguishes different sub-segments, each with its own enforcement approach.

4.1 Business starters

The business starters approach has three focus areas: the business starters, the pre-business starters and the youth. The approach used in these areas is aimed at compliance, trust and self-sufficiency. Service provision and supervision complement each other within this approach. There is intensive collaboration with the Chamber of Commerce. In 2010 more than 20,000 inspections into the actual status and more than 3,600 audits were carried out regionally involving business starters. The projects are aimed at influencing the fiscal behaviour of the new entrepreneur at the earliest possible stage in their business and even, if possible, beforehand. Research shows that business starters are positive about the visible and current approach and the first impact measurements show a positive effect in the behaviour concerning the filing the tax returns and payment. A pilot project is currently running to research the effects of visiting business starters with the aim of providing services. The outcome of this research will be used in the further development of the business starters approach.

4.2 The self-employed and SMEs with personnel

Under the enforcement management for this segment, the Tax and Customs Administration chooses an approach through horizontal monitoring. Research carried out within umbrella organisations, tax

service providers and sector organisations shows that in general they react positively towards horizontal supervision. This is also true for the enterprises in the large to very large segments. Whereas in the past the accent lay with repressive supervision in order to promote compliance, horizontal supervision links up better with the organisations' own professional responsibility and also with collaboration. Tax service providers see a positive value in the development, because this makes it possible to work with the current situation and entrepreneurs are able to gain certainty over their fiscal position more quickly. With regard to these groups in the SME segment, the accent lies with the collaboration between the Tax and Customs Administration and the tax service providers such as tax intermediaries and accountants. Agreements are made with these offices about the quality of tax returns using a system of quality assurance and by carrying out prior consultations regarding specific points of attention. On the basis of these, the Tax and Customs Administration is then quickly able to provide certainty about the tax return. By making a voluntary agreement, SME entrepreneurs are then permitted to file their tax returns according to the points thereby agreed.

Besides the approaches described above, the SME tax returns are also subject to the emission and selection rules that are being set up for the private individual segment.

5. TACKLING SYSTEM FRAUD SYSTEMATICALLY

Fraud occurs in both the SME mass segment as well as the private individuals' mass segment (in VAT, income tax as well as benefits).

Tax fraud is often difficult to see and it requires active detection by the Tax and Customs Administration. Over the last few years a number of different measures used in combating tax fraud have been tightened up and further developed. Examples of measures taken during the last few years in connection with combating fraud include the temporary voluntary disclosure scheme for black money, raising the punitive fine to 300% and the international exchange of fiscally relevant information. This approach to tax fraud appears to be successful. In 2009 for example, the last year in which it was possible to disclose without penalty, more than EUR 2 billion of foreign assets were disclosed.

5.1 System fraud: introduction

Fraud is a fact of life and will always require combating. One serious concern is that increasing quantities of systematic abuse are being seen in the tax and benefits services provision system. This includes,

for example, applications that are made on the basis of incorrect data, with the intention of abuse, for advance payments of benefits or provisional refunds of income tax. If this is detected, then claiming back the payments often proves very difficult.

One example of such fraud is of an “advisor” (only available by mobile phone) who applies for provisional refunds using fictitious data on behalf of taxpayers. He agrees that he will “arrange everything” for them. The refund is paid into the advisor’s bank account. Subsequently he transfers the remaining amount - after deduction of a hefty commission - to the taxpayer’s bank account. This may involve a refund of a few thousand euros. The Tax and Customs Administration claims the full amount back from the person on whose behalf the application submitted. This type of taxpayer often has difficulty in repaying such amounts. In the meantime, however, the advisor has disappeared.

Another common example is the fraud regarding the repayment of VAT, whether or not this involves a so-called carousel. In case of a VAT carousel, an entrepreneur does not pay the VAT onwards to the Tax and Customs Administration, even though he has charged the VAT to his clients.

There is always more than one business (and at least three) involved in a VAT carousel fraud, whereby at least one business does not pay the VAT received. VAT carousel fraud has many different characters. However, what always remains the same is that somewhere in the commerce chain at least one entrepreneur sells goods or services including VAT, but does not subsequently pay this VAT to the Tax and Customs Administration. The entrepreneur keeps the VAT that he received for himself, thereby adversely affecting the treasury. Frequently in cases of VAT fraud, the commerce chain is quite complicated. Moreover, the fraud covers several different EU countries. Since the fraud is so complicated, the Tax and Customs Administration and well-intentioned entrepreneurs are thereby misled.

The Tax and Customs Administration maintains a hard approach towards the abuse of statutory provisions. This also involves a targeted approach towards tax risks. On the other hand, the services provided by the Tax and Customs Administration are increasingly geared to the wishes of citizens and parliament in realising the claims for provisional refunds and advance payments for income-dependent benefits as quickly as possible. A healthy balance between the level of service and the space allowed for fraud is therefore an important focus of attention. Providing a quick service is only possible if citizens can be trusted to provide information that is true, that their estimations are calculated to

the best of their knowledge and in the expectation that they will “repay” anything owing after the final award and/or assessment. It appears that the greater proportion of citizens lives up to this trust. However, there is a limited group that abuses - to varying extents - the working methods of the Tax and Customs Administration.

Citizens are able to - and, in the case of income tax and benefits, must - report relevant changes that occur during the course of the year, so that their provisional refund or payment can be adjusted. This does not always occur in practice, however, which can lead in turn to a sizeable discrepancy with the provisional refund or payment. If this arises due to carelessness, then that is unpleasant for the citizen who is required to repay. That is why the Tax and Customs Administration points this out in its communication. A greater problem arises if citizens provide fictitious data, whereby the Tax and Customs Administration awards too high a provisional refund or payment.

Citizens are obliged to provide the correct facts in their dealings with the government. In many cases, those who do not do so are committing a punishable offence: by committing forgery and/or fraud. A more complicated form of fraud involves criminals who gain access to other citizens' identity data - without those citizens' knowledge - and who then use the data in order to apply for refunds and benefits. A particular form of identity fraud occurs when citizens consciously make their data available to third parties, whether or not for payment. In the Netherlands, we call these forms of abuse system fraud. This includes using every attempt to get the Tax and Customs Administration to pay out money on the basis of incorrect data. Besides fraud concerning provisional refunds or benefits, system fraud also involves turnover tax refunds. Such system fraud can also be found in many other OECD countries¹.

5.2 Anti-fraud box

These developments have led to the setting up of the Anti-fraud box for system fraud at the Tax and Customs Administration. This is a collaborative relationship between all sections involved in the Tax and Customs Administration. The Anti-fraud box brings together all the information concerning fraudsters and patterns of fraud and coordinates the execution of all measures (further details below). All the sections of the Tax and Customs Administration involved (central administration/ collection/ recovery/Fiscal Intelligence and Investigation Service/

¹ *OECD/Forum on Tax Administration Report: Tax Repayments: Maintaining the Balance Between Refund Service Delivery, Compliance and Integrity (May 2011)*
<http://www.oecd.org/dataoecd/13/51/48384654.pdf>

Benefits) collaborate in order to detect fraudsters and to implement measures that cover the fraud risks. The Anti-fraud box actively looks for possibilities for linking files together, collaborating with external parties and initiating system adjustments in order to close loopholes. Ideas from the Anti-fraud box with a good chance of success are given priority in the adjustment of systems.

5.3. Measures in enforcement – income tax & benefits

- Extra attention is paid when communicating with citizens concerning the fact that providing fictitious data is a punishable offence.
- The procedure that leads to changes in bank account numbers to which refunds are transferred has recently been amended. Changes can only be processed after the citizen has confirmed the change in the bank account number to be used.
- Before any payment is made, a check is made of the bank account as to whether it is used by different Citizen Service Numbers, which can point to fraud.
- Tax returns that are submitted by means of DigiD (a citizen's digital "signature" when communicating with the government) are matched with Citizen Service Numbers (government-wide identification number of citizens).

The measures listed above have led to a visibly large reduction in the number of cases of large-scale identity fraud.

- Applications for childcare benefit in arrears are inspected with extra care before being accepted.
- Applications for refunds and tax returns are inspected more carefully through extra checks arising from intelligence and risk selection.
- Payments are no longer made by the Tax and Customs Administration to people with no fixed abode (including benefits, income tax, national insurance contributions and turnover tax), because the risk of non-recovery in these cases is too great.
- The consistency rules are being tightened up.
- The Tax and Customs Administration assesses applications for refunds and benefits in comparison with any contra-information that is available in existing databases and makes an inventory as to which files should be considered for linking à during the first 10 months of 2011, this led to the prevention of EUR 102 million being paid out wrongly.

- Applications that involve the past form an extra risk, partly because of the fact that these often involve large amounts. Up till now, such payments were paid out quickly.

However, payments of these amounts will only take place now after prior inspection.

- Applications for provisional refunds will be refused if tax returns have not been filed during the previous years when they should have been.
- Consultations with the banks to find out whether a form of structural collaboration and mutual exchange of data with regard to the detection of system fraud can be simplified.

5.4 Measures in enforcement – VAT

The emphasis in the approach to VAT fraud lies with prevention. The sections involved within the Tax and Customs Administration (tax regions, Fiscal Intelligence and Investigation Service, Central Liaison Office and the National Supervision Organisation) are collaborating on improving the detection of cases of fraud. By building up a good position in terms of information then the situation can be avoided whereby the taxpayers are wrongfully in possession of a VAT number or an authorisation (for reverse charging VAT on import).

- If an entrepreneur files tax returns at nil value for more than a year then, after assessment, the VAT number will be revoked. The Tax and Customs Administration has assessed 90,000 nil value tax returns (this action started in 2011 and will be completed in May 2012). This works to prevent the risk of “empty VAT numbers” being using wrongfully in the application for turnover tax refunds.
- More than 26,000 VAT numbers of businesses are permanently monitored due to previous negative experiences involving the business in question. These businesses have been given a separate code in the turnover tax system. If an application is submitted by such a business for a VAT refund (negative tax return), then this is assessed by hand. The proceeds from this monitoring amounted to over EUR 17 million by the end of 2011.
- Entrepreneurs who either consciously or unconsciously are part of a carousel fraud are sent a warning letter. This letter is sent to the taxpayer if the Tax and Customs Administration strongly suspects that the goods purchased by the entrepreneur are traded within a chain, in which at least one party does not meet the VAT obligations, leading to a fiscal disadvantage in the Netherlands or another country. In the letter the entrepreneur is warned that he

should choose his suppliers and purchasers carefully in order to avoid becoming involved in a VAT fraud carousel.

- The carousel fraud reporting centre was officially opened in April 2010. The Tax and Customs Administration is calling on entrepreneurs and tax advisors to report any suspicions they have of VAT carousel fraud. Since January 2011, reference is made to this reporting centre on the tax return. Furthermore, consultations have started with banks in order to focus their attention as well to the reporting of carousel frauds.
- Through collaboration and the exchange of information within Europe, carousel fraud can be detected and stopped as quickly as possible. The exchange network Eurofisc (a French-Dutch initiative) has been operational in the EU since 1 November 2010: as soon as carousel fraud is detected then the experts involved are quick to exchange the information concerning transactions. Besides this, investigations are also being carried out into trends. With the help of international investigations, the Tax and Customs Administration has succeeded in detecting almost EUR 90 million worth of VAT constructions involving luxury yachts. In collaboration with nine other EU countries, 150 luxury yachts were inspected in various different ports around the Mediterranean Sea.

The Tax and Customs Administration was able to issue almost EUR 20 million worth of additional tax assessments.

5.5 Future regulatory measures

However, more is needed besides the measures listed above. This means that the Minister needs to provide new regulations, which will improve the inspection at the gate.

This includes ideas such as:

1. Differentiation in the provision of services. The level of service provision must be kept up for the greater majority of citizens. At the same time, space must be created to submit risk groups to extra supervision. Every group should receive the service provision that suits the group in terms of its own risks. In case of doubt, up till now applications have usually been honoured, but this practice will be changed extra time is needed in order to compile information and to compare contra-information with the data provided in the application. This extra supervision will possibly lead to “new clients” being served less quickly.
2. The obligatory use of only one bank account number. Payments by the Tax and Customs Administration, involving either benefits

or taxes, are only made to one and the same bank account number, which is in the name of the citizen (and/or his or her partner).

3. Disqualification of rights. Fraudulent behaviour in the past will count towards the disqualification of rights for a certain period of time.
4. Changes to the data of taxpayers and benefit recipients can only be made via DigiD, meaning that the changes to data occur more safely and fraud is less easy. The Tax and Customs Administration's systems must be set up accordingly. This change takes priority.
5. Limitation of the number of tax deductible items, which a provisional refund can be applied for, to the items that relate to the fixed (monthly) expenses. A provisional refund is given for mortgage interest, for example, but not the donations related refund.

Simple regulations, improved inspection at the gate, horizontal and vertical supervision are the successive steps through which fraud can be cut back to an important extent.

There will still be a group remaining, however, which will not be put off by these measures. As final element in combating fraud, heavy sanctions are needed for these people, so that this hard core of fraudsters can be dealt with severely. Only then can the system remain sustainable and the well-meaning will not have to pay for the behaviour of the wrongdoers.

e-CONTROL OF NOTCOMPLIANCE

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***Contents:** 1. Introduction.- 2. Chilean Tax Administration (SII) business model. 3- Information processing strategies for e-Control of Non-compliance.- 4. Practical cases: Using affidavits in mass auditing, in VAT returns and the new auditing of VAT using the new VAT-Pro System.- 5 General conclusions*

1. INTRODUCTION

The technological development of the last decade has allowed Tax Administrations to increase the efficiency of their tax auditing, achieving greater coverage at a lower cost for the Administration as well as for the taxpayers.

Looking to modernize itself, the SII has established a business model that seeks to minimize tax non-compliance by using information that is available in its data base which comes from various sources such as affidavits presented by taxpayers, electronic invoicing records and any other information contributed by public or private bodies. This information is made transparent and available to taxpayers through tax declaration proposals which they can modify or complement as needed or made available through systems which allow taxpayers to follow up on their declarations and make modifications directly whenever needed.

In relation to control process the SII favors the use of massive challenge processes, therefore all tax declarations received are checked against the information available in the SII data base and selected for control in accordance to programmed observations.

The use of this business model has allowed the SII to focus its tax control on those taxpayers and evasions which are more complex. In relation to these tax controls the SII favors that taxpayers make all

the necessary corrections through internet, using the available WEB tools, leaving in-office attention for cases that have a higher degree of complexity.

Under the model previously described, the most recognized process of the SII is the “**Annual Income Tax Declaration Process**”, which begins with the capture of information –mainly through applications that are available on the Internet- from affidavits and income tax declarations, the latter one including the SII Tax Proposal for a high percentage of taxpayers. The process then continues with a massive information cross-check carried out by the IT platform to all the declarations and allows within a month to challenge tax declarations which show differences based on previously programmed validation algorithms. The result of this process is informed through the Internet, allowing taxpayers to correct their situation online or, when required, go to the SII offices.

Our current challenge is to implement a similar mechanism for VAT control, for which we would use all the information submitted to us related to this tax such as, electronic invoicing records, affidavits of purchase and sales books and affidavits concerning VAT, among others, thus allowing us to reduce the possibilities of non-compliance and to carry out massive controls through previously defined algorithms as well as to facilitate taxpayer auto-tax control and allowing tax auditors to carry out audits with more certainty. This way, we expect to more efficiently reduce the evasion of this tax.

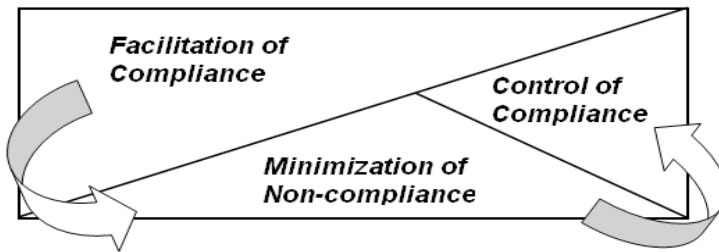
2. CHILEAN TAX ADMINISTRATION (SII) BUSINESS MODEL

The role of the SII is determined by the SII Organic Law (Art. 1° of DFL N° 7, 1980) “Article 1. - The Chilean Tax Administration (SII) is responsible for applying and auditing all internal taxes already established or will be established, whether they be fiscal or of any other kind in which the tax administration takes interest in and whose control is not mandated by law to a different authority”. Thus seeking to reduce evasion and maximize collection which is required to finance the expenditures of the Chilean Government.

The strategies historically implemented by most tax administrations to reduce evasion have been the **facilitation of tax compliance and the control of tax compliance**.

The business model implemented by the SII incorporates a third approach to further reduce evasion defined by the SII as “minimizing taxpayer non-compliance”.

The application of this new approach requires the intensive use of the new information technologies available that allow more storage, less time for data processing and high connectivity to the Internet for taxpayers throughout the country. Thus, the Business Model is guided by the following central concepts: **facilitation of compliance**, **minimization of non-compliance** and **control of compliance**.

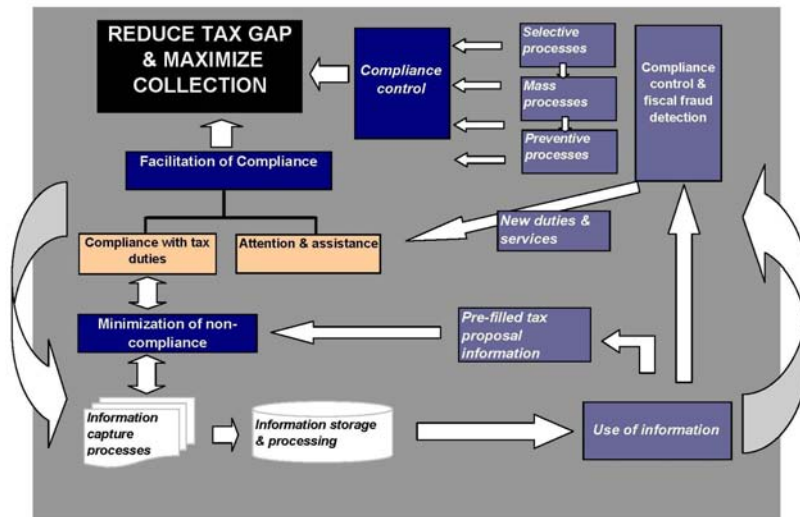


The model seeks to reduce non-compliance by promoting voluntary compliance of tax obligations so that it is “easier to comply and more difficult not to comply.” To reduce the possibilities of non-compliance, the SII has improved its information capture processes and improved the storage and processing of information from affidavits, tax declarations and from other sources, with the objective of making it more transparent and available to taxpayers so they can incorporate it into their tax declarations in a timely manner.

Therefore, taxpayers must validate the existing information on their tax declarations and complete them with the missing information.

In relation to compliance control, the trend is towards the automation of massive cross-checking control processes in order to detect inconsistencies through previously defined algorithms. For the new or more complex tax evasion schemes, tax intelligence is developed for the detection and punishment of non-compliant taxpayers.

The knowledge obtained from these processes provides the necessary feedback for the creation of new information requirements and allows the creation of new validation algorithms that can be incorporated in massive cross-checking control processes and automated controls, or the incorporation of new information in pre-filled declarations.



Facilitation of compliance is the set of actions that the SII develops and implements so that the taxpayer can comply with their tax obligations in the best way possible and at the lowest cost for the taxpayer. These tax obligations can be classified as those related to the taxpayer lifecycle, related to the obligations of declaring and paying their taxes and to those related to other duties imposed by law.

The set of actions that facilitate compliance includes the management of the different channels of communication with taxpayers (Internet, telephone, in-office assistance), the management of the content and services offered, and the management of the mechanisms for tax compliance (paper tax declarations or electronic services).

Examples of the first are: Information and Assistance Centers, Telephone Help Desks, SII website (to carry out procedures), 'My SII' webpage, SII Mobile Office among others.

In relation to electronic services for compliance, some of the online services offered are: Taxpayers' Lifecycle (registering new taxpayers, data modifications, end of activity, etc.), tax declarations and payment, affidavits, electronic issuing of receipts for services rendered electronic invoicing, SME webpage, etc.

The SII aims to provide taxpayers with all the necessary information for them to declare their taxes in a timely and accurate manner, and with tools that facilitate tax compliance and reduce the cost

of tax compliance for the taxpayers to the minimum possible. As a consequence, taxpayers' attitude toward compliance improves also improving the quality of their tax declarations which in turn reduces tax evasion rates.

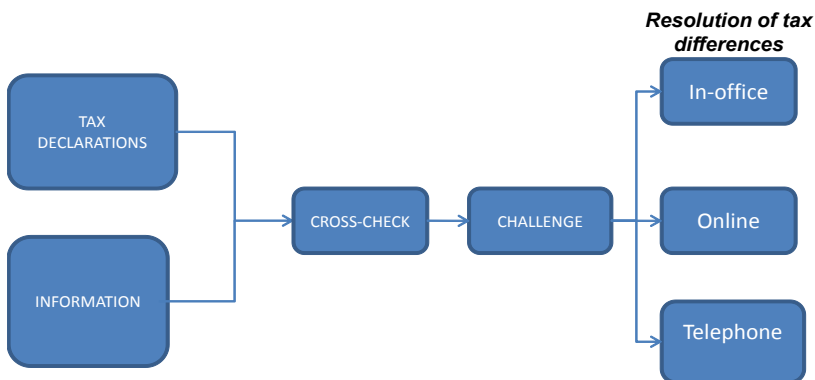
Minimization of non-compliance consists of the set of actions that the SII carries out in order to reduce the errors that the taxpayers make in their tax declarations, (either errors of calculation or inaccuracies in the information reported) and to reduce the opportunities for non-compliance by omission of information. When reduced, taxpayers' compliance improves and the SII saves resources on the control of those differences.

In an ideal scenario, the tax administration would have 100% of the taxpayer information necessary to determine the exact amount of tax due. As that is not possible, these actions aim to reduce the gaps of information. Examples of such actions include: rule out arithmetic errors in tax declarations presented by Internet, pre-filled annual tax declarations, information amendment proposals, applications available for VAT refunds requested by exporters, etc. In the pre-filled tax declarations proposed to the taxpayers the SII makes transparent and available to taxpayers the information it has already received by other means and sources (tax declarations, affidavits, information from other institutions, etc.). Many of the proposed pre-filled tax declarations could potentially benefit taxpayers since differences that otherwise would go unnoticed, are determined in their favor.

Control of Compliance consists of the set of actions that the SII takes so as to verify the correct compliance of tax duties by taxpayers and penalize non-compliance. These actions can be massive, selective or preventive. Massive control actions consist of standard cross-checking of taxpayer information obtained from the SII database and/or from external information sources. These usually involve a large number of taxpayers, focusing especially on Internet assistance whenever possible and on in-office assistance in those cases that necessarily require the presence of the taxpayer or additional information. Selective control actions are carried out in order to check hypothetical evasion in specific taxpayer segments. Due to their complexity, they affect fewer taxpayers and the audit process requires more human resources. When a tax evasion scheme is detected, and its control can be feasibly standardized, the SII proceeds with its automation in order to incorporate it into the massive control processes. Finally, preventive control actions are intended to validate taxpayer compliance by SII officials whether on location or by other means.

All of these actions aim to increase the taxpayers' perception of risk related to non-compliance and because of its coverage it is an effective tool for controlling evasion. Other objectives include the validation of taxpayer information and informing taxpayers of pending issues with the SII.

The e-control process developed by the SII is summarized in the following diagram, which shows the IT tax control developed for the various taxes, achieving high levels of coverage and efficiency.



In conclusion, the model applied by the SII has increased the knowledge we have of taxpayers and of their actions as well as determined the need for new information related to their activities, giving rise to new requirements of information or modification of the ones that already exist. The model has also allowed us to anticipate SII actions in light of possible new evasion schemes by generating services or obligations which tend to minimize the non-compliance gap.

3. INFORMATION PROCESSING STRATEGIES FOR E-CONTROL OF NON-COMPLIANCE

Based on the business model described above, we will refer to the strategies used to carry out the information capture processes, the importance of quality assurance, the legal basis that enables the SII to request various types of information and the massive cross-checking of information required for non-compliance control.

3.1. Capture of Information

The SII requires four sources to capture taxpayer information for tax control, which are: Taxpayers' Lifecycle, affidavits, tax declarations and electronic invoicing.

a) Taxpayers' Lifecycle and Stamping of Documents

The Taxpayers' Lifecycle and Stamping of Documents are the most massive processes for the SII. These processes include:

- Registration of Taxpayer Identification Number (RUT)
- Start up statement
- Modification of information previously submitted
- Verification of activity
- End of activity
- Stamping of Documents

All activities above, except for Stamping of Documents can be done online, including electronic invoicing and issuing of receipts for services rendered which do not require to be physically stamped.

Currently, most of the procedures included in the lifecycle are done online, which facilitates taxpayers' compliance as it reduces costs and provides us with better quality information due to the fact that the information is captured electronically in a more complete and timely manner, therefore facilitating and improving follow up and control actions carried out to decrease non-compliance.

b) Tax Declarations

In Chile, tax declarations are filed using standardized forms which are submitted to pay taxes or ask for returns.

The strategy for the last 10 years has been to encourage people to submit these forms online, having made significant progress. Last year, 98.8% of income tax declarations and 70.0% of the VAT declarations were filed online thereby entering directly to the databases of the SII. This has allowed us to have information of better quality due to the fact that the existing platform used to submit declarations through the internet makes a series of logical and mathematical validations. This prevents submitting to the SII database information which might have typing errors or miscalculations, while at the same time improving in a significant way the timeliness of having this information so it can be included in various processes.

Annual Income Tax Declaration Proposal

Based on the Business Model described above, as of the year 2001, the SII has generated annual income tax declaration proposals for a significant number of taxpayers, a strategy aimed at minimizing tax non-compliance as well as facilitating compliance. The proposal is

generated using information from withholding agents and informers, which has been compiled from affidavits and other sources of information available to the SII. These proposals include information and use of tax benefits which are sometimes unknown to taxpayers, thus generating multiple benefits for taxpayers and for the tax administration, as it reduces levels of challenge of declarations and implicitly improves compliance control.

In cases where taxpayer information does not meet the necessary conditions for a complete and accurate tax declaration proposal, but whose tax information allows for a partial accurate completion of some codes of their Annual Income Tax declaration (which will help them complete their declaration), the SII will present a partially filled online proposal, so as to also minimize tax non-compliance as well as facilitate compliance.

The SII offers about 1.5 million completely filled proposals and 400.000 partially filled proposals. Regarding the total of 2.5 million annual tax declarations submitted in the year 2011, 47.7% of taxpayers used the proposal offered by the SII without making any modifications, 5.5% of taxpayers used the proposal as the basis for their tax declaration, modifying what was initially proposed by the SII and 10.5% used the partially filled proposal described previously.

c) Affidavits

The SII also requests affidavits from third parties (individuals or enterprises) to capture taxpayer information. This information is of various types, such as information on revenues, income, withholding of taxes, tax exemptions or tax credits, transfers, among others.

In 1999 the SII started to receive affidavits submitted online for the purpose of income tax auditing, and since 2004 the Internet has been the only mean by which the SII accepts receiving them. Currently, there are 71 affidavits related to this tax, most of which are submitted to the SII in March of every year. Likewise, in 2003 the SII created the Summary of Sales and Purchase Affidavit which had to be submitted every semester by taxpayers with sales over CLP\$ 250 million, (approximately USD\$500.000), which represent over 80% of the VAT credit in Chile. This allowed the SII to carry out massive yearly controls to VAT taxpayers. This obligation was modified in 2011 in order to have more certainty in this auditing process, changing it for two new affidavits which must be submitted to the SII every semester and must have detailed information of all monthly purchases and sales made by these taxpayers. In regard to the request for VAT Export Return,

three affidavits have been implemented which must be submitted by Internet, where exporters give detailed information of their operations.

This information is cross-checked online with the information from Customs thus allowing the SII to determine a VAT Export Return proposal so that taxpayers do not make any mistakes when submitting this information and requesting their return.

Although the SII has legal authority to demand affidavits, it has also been concerned about facilitating compliance from withholding agents and informers, whether it be by using information technology in order to make it easier and faster to send the information or by establishing communication channels with associations of these agents or tax consultants, assuring that the information which is required is available at the enterprises, or by granting the necessary time to compile it or for them to adapt their internal systems in order to comply with this obligation. Also, on the SII website for every tax obligation there is the corresponding Q & A/Helpful Information Section available to facilitate the submitting of these declarations.

d) Electronic Invoicing and Receipts

These documents that are generated, supported and transmitted electronically, are an important source of capture of information due to their operation model - type B2B for electronic invoicing and type B2C for sales and service receipts.

Electronic invoicing, which began in Chile in 2003, includes within the model itself the sending of the issued electronic invoices to the SII as well as, once a month, the sending the Sale and Purchase Electronic Information (IECV). The latter is a summary of the sales and purchases made by the taxpayer and contains all the information of the documents that have been issued and received during the recently closed tax period, whether they be in paper or electronic format.

All electronic documents generated by taxpayers are sent to the SII, with the exception of electronic sales and service receipts, either taxed or exempt, which back up the operations with the final consumer, however, taxpayers that issue these documents must send a daily electronic report, which contains the summary of the day's sales. Said report details the number of documents used, their amounts, annulled documents and electronic credit notes. Additionally the IECV, in its sales section must include in its summary the monthly sales made using electronic documents.

In relation to electronic invoicing worthy of highlighting is the Small and Medium Enterprises Portal (Portal MIPYME). Once registered the taxpayer has all the benefits and obligations of electronic invoicing, but at a very low cost. The portal's objective is to provide electronic invoicing services to taxpayers that, due to their size, are not commercially attractive for IT businesses which offer these services.

For the SII this portal is a source of accurate information and is geared to a portion of the market to which we wouldn't otherwise have access to due to the high cost for these taxpayers to implement ICTs (Information and Communication Technologies).

3.2 Importance of Information Quality

To ensure the quality of the information contained in the Affidavits these are submitted to various types of information validations including:

Logical and mathematical validations, done online the moment the retaining agent submits the information through the Internet, which allows in that same moment to reject the declaration so it may be corrected, prior to its storage in SII's database, avoiding errors that would affect tax controls.

Validations between affidavits or with SII database information. They are a group of controls which are applied in a uniform manner to affidavits of the same kind, and which seek to determine differences or inconsistencies in the information submitted by the informing agents. This way, when the validated information is used in compliance controls and the results are inconsistent, they are considered red alerts in the auditing process.

This is how we determine whether the information of the companies is consistent with the information declared in its public records which was already verified by the SII during the business startup process or during the modifying activities process, or that the real estate declared actually exists or that the taxes withheld informed on an affidavit have actually been previously paid using the corresponding tax forms.

Likewise, a series of validations have been established for electronic invoicing to ensure the quality of the data entered, whether it be on an electronic document or on the IECV.

Basic validations exist such as those that verify minimum data which relate to the order and type of format of each field in the electronic document. These formats, established by SII, have been informed in

technical guidelines published on the SII web page. There are also more complex validations such as internal calculations and cross-checks within the electronic documents. A document which doesn't comply with the minimum validations is automatically rejected by the SII for its correction. These are small observations which don't make the document less valid and which are accepted. In 2011 the SII updated the validations regarding the reception of electronic documents and of the IECV.

Electronic invoicing contributes significantly to the standardization, structuring and formalization of the information sent to the SII. In this regard the MIPYME Portal is stricter, because it doesn't allow the entry and submitting of electronic documents which don't comply with the established standards.

The information submitted through electronic invoicing -electronic documents, IECV and other reports- is stored and used to cross-check with the affidavits.

3.3 Legal basis of the request of information through affidavits

The legal faculties of the SII to require taxpayer information come from: Tax Code (Decree Law N° 830), VAT Law (Decree Law N° 825) and Income Tax Law (Decree Law N° 824).

Based on these the following actions may be carried out:

- Require taxpayers to present a Current State Declaration
- Make use of all legal means to verify the accuracy of submitted taxpayer declarations and to obtain information relative to taxes owed or that could be owed
- Register in the Taxpayer Identification Number Register (RUT) all people, entities or groups that by reason of their activities or condition are subject to or could be subject to taxation
 - Register taxpayers in special records
 - Request an affidavit of the Company Start-Up
- Obligate companies to inform about all modifications of company bylaws (e.g. partners, capital, etc.)
- Obligation of Municipal officials to provide the SII with information related to patents, real estate and others
- Public officials, semi-public officials, belonging to fiscal or semi-fiscal institutions of autonomous administration, the municipalities and the authorities in general, are obligated to provide the SII with all the information that it requests for tax control.
- Various obligations established for third parties or institutions to give information to the SII, or ensure fulfillment of certain tax requirements.

- Obligation to present monthly tax declarations
- Obligation of individuals or companies who are required to withhold taxes, to present to the SII a report on taxes withheld.

3.4 Compliance Control

The SII has been developing and perfecting massive processes that control and focus tax control on non-compliance. The most relevant aspects of the process of challenge of declarations are described as follows:

Challenge Process

This process consists of a central, electronic and massive check of all the declarations submitted, the objective of which is to detect and select taxpayers with inconsistencies in their declarations, based on the information from the affidavits, the information contained in the SII database and the actual Tax Declarations.

In the challenge process all differences detected make the tax declaration subject to being challenged. Subsequently, based on a series of criteria, which involve the assertiveness of the control applied, the higher probability of evasion or tax fraud, and the availability of technical staff in the different SII offices, a decision is made on which taxpayers will be audited in a certain period of time. The taxpayers selected, depending on the type of challenge, can correct their tax declarations online or go to an SII office to be audited and to present documentation which supports their tax declarations.

This process consists of a series of controls, which include: simple cross-checks, such as the comparison of a code or field on a submitted tax return with a specific field of an affidavit; more complex controls which sum up all the investments of a person which are then compared to the total income declared and which also consider their living expenses; preventive controls which challenge a declaration because the taxpayer has 'marks' or 'observations' which warrant a revision by the SII; or possible fraud such as those that check for excessive tax discounts.

All controls are applied to the group of tax declarations which are being audited; notwithstanding the challenge considers variables such as the category of the challenged taxpayer and the amount of the difference detected so as to make efficient use of the auditing resources.

4. PRACTICAL CASES: USING AFFIDAVITS IN MASS AUDITING, IN VAT RETURNS AND THE NEW AUDITING OF VAT USING THE NEW VAT-PRO SYSTEM

The following are three practical cases using e-Control based on the model previously described, beginning with the Annual Income Tax Declaration Process which is the oldest process in which affidavits are utilized, continuing with the VAT Exporter Return Process which as of 2010 can only be requested by Internet, and ending with the current challenge of this tax administration which is the auditing of the VAT based on the same Business Model.

4.1 Mass Auditing of Income Tax

The Annual Income Tax Declaration Process is the main program of mass auditing or e-Control of compliance. It consists in the electronic verification of close to 2.5 million annual income tax declarations, process which is carried out between March and May.

As part of this process the SII obligates a group of taxpayers to submit information in the form of affidavits in March of every year. These taxpayers submit over 90 million registers regarding income obtained from people, investments, tax credits, tax withholdings and tax exemptions, among others.

In 2000 there were 21 Income Tax Affidavits; currently there are 71 Affidavits included in the Annual Income Tax Declaration Process, the following being the most submitted:

Form Number	Form Name
1887	Income of Art. 42 N° 1 (Salaries), other components of the Salary and Withholdings of the Tax in Second Category of the Income Law.
1894	Annual Affidavit on Investments, Reinvestments and Mutual Funds not included in articles 42 bis and 57 bis of the Income Law.
1891	Purchase and Sale of Public Limited Stocks and other stocks traded by Stock Brokers and Money Exchange Offices Not Included in the Saving Incentive of Letter A) Article 57 bis of the Income Law.
1879	Withholdings carried out conforming to Articles 42 nd N° 2 and 48 th of the Income Tax Law.
1890	Interests or other Income coming from deposits, investments and operations of any nature in Banks, Central Bank of Chile and Financial Institutions not included in the Letter A norms of Art. 57 bis of the Income Law.
1812	Income from Art. 42 nd N° 1 (Retirement, Pensions) and Withholdings of Tax of Second Category of the Income Law.

In April of each year, taxpayers subject to corporate and individual taxes present their Annual Income Tax Declarations and pay the resulting amount or request the return of differences in their favor. These Tax Declarations are submitted to the SII mostly by Internet (98.8% of declarations), and in the case of individuals, usually using the tax declaration proposal offered by the SII.

In May, and as a result of the process of challenge of tax declarations, about 10% of taxpayers are selected. As of June, depending on the seriousness of their inconsistencies, these taxpayers must amend their declaration online or go to the SII offices to analyze the main discrepancies in depth. The SII proposes the modifications for 25% of those that amend their declarations by Internet.

4.2 VAT Export Return

In this case, the whole process is carried out online, on the one hand the taxpayer submits their request for Vat Export Return and at the same time Customs informs the SII online of the Export Documents, by which exports are certified. This way the taxpayer can only request returns on the exports confirmed by Customs.

In this case, returns are submitted online, the same day auditing cross-checks of the information are carried out to determine if the declaration is accepted or challenged. If challenged, the taxpayer is informed online of the reasons of the challenge so they may correct the declaration online or go to the SII office in person the next day with the documentation supporting their return request, so that an auditor may verify in person the exactitude of the return or amend the declaration.

This process came into effect the 1st of January of 2010, and allowed taxpayers to go from an entirely manual and in person process, to a process that, with the support of information technologies, is simpler and allows the SII to standardize its controls.

In 2011, a total of 2,549 taxpayers submitted 17,180 VAT Export Returns.

4.3 Auditing of the Value Added Tax (VAT)

During the year 2011, the SII has been preparing to continue its model of e-Control for the auditing of the VAT. For better control of VAT, the SII created the Sales Affidavit and Purchase Affidavit which inform the detail of sales and purchases, including over 80% of VAT credits utilized at a national level.

The system created for this process crosses the information obtained from affidavits and from sales and purchases (the latter provided by taxpayers authorized to issue electronic documents) with the information obtained from the VAT declaration. The objective is to carry out a massive VAT auditing process, similar to the Income Tax Control Process previously described.

The number of taxpayers obligated to present Purchase and Sale Affidavits are around 11,600. These affidavits must be submitted every semester and will be added to the SII database, this information will be complemented with the information of the electronic invoices also added to the SII database. With all this information the SII conducts cross-checks of VAT declarations, indicating to the taxpayer accurate differences between their VAT debits and credits; allowing them to correct their declarations by Internet, and at the same time give SII auditors more precise tools to do their jobs more efficiently.

5. GENERAL CONCLUSIONS

As described in this document, the SII has placed great emphasis on developing a Business Model which in addition to control seeks to minimize non-compliance and facilitate compliance, for this it has made intensive use of Information Technologies, achieving:

- High taxpayer coverage by means of e-Control through the use of Information Technologies that allow the massive processing of tax declarations in short periods of time.
- Permanent processes: which can be carried out periodically depending on the updating of information or the programming of auditing controls.
- Standard analysis structure, which homogenizes auditing criteria and strategies for all taxpayers.
- Equal treatment of taxpayers: taxpayers are selected for auditing by massive processes which guarantee the objectiveness and transparency of the selection. High perception of tax control: taxpayers can check their tax information reported to the SII by withholding agents and informants, and check any auditing processes that affect them, all of which is available by Internet.
- Low Cost: The platform of mass controls allows to program new control algorithms and to incorporate new sources of information under the same database models without significantly increasing operational costs, thus improving efficiency.

In summary, the process of e-Control has allowed the SII to significantly contribute to taxpayer compliance.

**e-COOPERATION: INFORMATION TECHNOLOGIES THAT
MAY ALLOW FOR EXCHANGING INFORMATION BETWEEN
NATIONAL AND INTERNATIONAL ENTITIES**

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Contents: 1. Excise systems. - 2. Value added tax systems. - 3. Direct tax systems. - 4. Recovery.

e-Cooperation in the European Union

The development of electronic means of cooperation has been high on the agenda in the European Union for many years.

Some systems have been developed as an integral part of the EU legislation on Excise and on VAT, which is absolutely necessary for these tax systems to function in the Single Market without border controls. Other systems have a more general aim of providing mutual assistance in the recovery of tax claims and in combating tax fraud.

This paper provides an overview of a large number of EU systems for e-cooperation between Member States. In some areas the systems developed within the EU could be useful also for non-EU countries.

For those interested in details of the legislation, references of legal instruments are provided in footnotes.

The Commission is willing to share experiences gained from the development and use of these systems with tax administrations and international organizations. In particular, it should be noted that non-EU countries are invited to make use of the multilingual e-forms for exchange of information in the area of direct taxation.

1. EXCISE SYSTEMS

Excise Movement Control System (EMCS)¹

The Excise Movement and Control System (EMCS) is a computerized system for monitoring and controlling in real-time within the Single Market the movement of excise goods (alcohol, tobacco and energy products) for which duties still have to be paid.

The project replaced the previous paper-based system based on the AAD (Administrative Accompanying Document) by an electronic system relying on a workflow of electronic messages between all parties involved (e-AD).

The main users of the system are the economic operators active in excise and national administrations. The functionalities to be developed are explained in the Functional Excise System Specifications, mainly all the aspects of the electronic circuit of the e-AD, from its submission to its discharge, including the changes occurring during its journey.

Development of EMCS started in 2002. The system entered into operations fully in 2011, after a roll-out period which started in April 2010. Every day, 27 national administrations and thousands of excise traders – from small wine-growers to some of the major oil and tobacco multinationals – use EMCS to conduct their business. Since 1 January 2011, more than 5.5 million messages have been exchanged via the system, which serves an overall community of more than 170 000 traders.

A major evolution of the system is envisaged in the upcoming years: EMCS might be extended to cover also duty paid movements.

EMCS is composed of 27 National Excise Applications (NEA) connected with each other via the Common Communication Network (CCN) and of several central / European components: SEED, TA, CS/ MISE (see below). In addition, part of the excise business process is covered via the exchange of electronic forms (MVS, EWSE).

¹ *The Directive 2008/118/EC putting in place the legal basis for the EMCS system approved on 16/12/08.*

Commission Regulation (EC) N°684/2009 implementing Council Directive 2008/118/EC as regards the computerized procedures for the movement of excise goods under suspension of excise duty.

The information flow runs as follows:

- A movement of excise goods between two traders is documented by means of the successive states of the electronic Administrative Document (e-AD), from issuance by the consignor to acknowledgement of receipt by the consignee.
- An e-AD is electronically submitted by the consignor and validated by the Member State of dispatch. In particular, the excise numbers of the consignor and the consignee are matched against a European register of operators (SEED). The e-AD is electronically transmitted to the Member State of destination, which forwards it to the consignee. When the consignee has no connection to EMCS, he is informed by the Member State of destination or the consignor. An e-AD can be cancelled or updated under certain conditions.
- Upon reception of the goods, the consignee, or another actor on his behalf, submits a "report of receipt", on which possible anomalies including shortages or excesses are also mentioned.

Several other cases can arise; for instance, the consignee refuses delivery or the consignor splits the movement.

Central System / Management Information System for Excise (CS/MISE)²

CS/MISE allows the Commission and the Member States to collect statistics on the operations of the Excise Movement and Control System. It permits to follow up EMCS movements.

It is also used by the Member States to communicate notifying when their national EMCS systems are not available.

The development of CS/MISE started in 2008 and the current version has been operational since 2010.

CS/MISE is a central application part of EMCS. The Commission and the Member States use it to collect technical statistics on the operations of EMCS: overall number of different types of messages exchanged, reporting on the ratio of technical messages to business messages, as an indicator of the error rate of the system.

CS/MISE is used for consultation and does not imply an electronic information flow between the Commission and the Member States or between the Member States.

² *This application is a supporting application to the EMCS system and developed in the context of the legal base for EMCS.*

System of Exchange of Excise Data (SEED)³

SEED is the system used to record details of excise traders who are approved to hold, move or receive goods under excise duty suspension.

SEED is a key component within the Excise Movement and Control System (EMCS). EMCS uses SEED to automatically verify the validity of every movement against the trader records, before the goods are approved to move under duty suspension.

SEED is used to validate trader approval numbers and approval categories, e.g. beer, wine, spirits etc. If these details do not correspond with the contents of the electronic-Administrative Document (eAD), then the goods cannot be moved.

Development of the current version of SEED started in 2008, and this version entered in operations in 2010.

SEED consists of the central “European” SEED and the national SEED Applications.

The central SEED – operated by the Commission - manages and disseminates registration data on excise Economic Operators and the EMCS reference data.

Example (1) of information flow from the national SEED to the central SEED: a Member States updates its national excise registration data (e.g. whether an economic operator is authorized or not to trade in excise goods). The update is replicated automatically in the central SEED. The latter dispatches the updated data to all the national SEED. The central SEED maintains a copy of the updated data.

Example (2) of information flow from the central SEED to the national SEED: the Commission updates the reference data (e.g. the list of the offices responsible for controlling excise movements in the Member States). The central SEED sends the updated list of reference data to all the national SEEDs.

³ Council Directive 2008/118/EC of 16 December 2008 concerning the general arrangements for excise duty and repealing Directive 92/12/EEC (OL L 9, 2009 1 14, p. 12–30); Council Regulation (EC) No 2073/2004 of 16 November 2004 on administrative co-operation in the field of excise duties (OJ L 359, 04/12/2004 P. 0001 – 0010).

Movement Verification System (MVS)⁴

The Movement Verification System allows the Member States to exchange information on administrative assistance in the field of excise duties.

MVS allows the services responsible for monitoring excise trade to verify individual movements of goods between two traders.

MVS has been used since 2002. It will be phased-out partially in 2012, when its functionalities will be covered by EMCS for movements under duty suspension. However, it will remain operational for duty paid movements.

MVS are electronic forms used by the Member States administrations competent for excise. These forms are exchanged via the Common Communication Network (CCN) operated by the Commission.

2. VALUE ADDED TAX SYSTEMS

VAT Information Exchange System (VIES)⁵

The VAT Information Exchange System (VIES) allows the tax administrations of the Member States to exchange VAT-related data. It consists of a central communication network operated by the Commission (CCN) that links the national VIES systems of the Member States.

The establishment of the Single Market in 1993 simplified business operations across the Member States. However, it also relaxed fiscal controls at the intra-EU borders. To combat the increased risk of fraud, VIES was set up.

Business registered for VAT in the Member States which make intra-EU supplies must complete recapitulative statements listing the aggregate value of supplies of goods and services made to VAT registered customer elsewhere in the EU. Companies submit this information to their Member States authority competent for VAT control. Member States collect this information and store it on their VIES databases.

⁴ Council Regulation (EC) No 2073/2004 of 16 November 2004 on administrative cooperation in the field of excise duties (OJ L 359, 04/12/2004 P. 0001 – 0010) – Article 24.

⁵ Council Directive No 2006/112/EC of 28 November 2006 on the common system of value added tax;

Council Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of value added tax and repealing Regulation (EEC) No 218/92.

EU tax authorities use and exchange among each other this data to ensure that intra-EU VAT has been correctly accounted for. Information is exchanged via CCN. VIES is also used by companies to check the validity VAT registration numbers of their customers in other Member States. Valid VAT registration numbers are a necessary condition for zero-rating intra-EU supplies of goods.

VIES has been operational since the establishment of the Single Market in 1993. VIES is one of the Commission's flagship information systems in terms of operations. It will exchange 500 million messages in 2011, a number which is expected to exceed 1 billion by 2015.

VIES will be extended to cover the exchange of additional VAT-related information in the upcoming years.

VIES consists of a set of national databases, located in each of the Member States, interconnected by a common communication infrastructure: the CCN network. There is no central, European database.

All Member States are required to maintain an up to date, complete and accurate VIES database.

VIES Monitoring Tool (VMT)⁶

The VIES Monitoring Tool Application (VMT) supports the functioning of VIES. VMT allows the Commission to monitor the operational status of the Member States' VIES systems.

VMT development started in 1997 and it has been operational since 1998.

The VIES Monitoring Tool monitors the different national VIES systems and allows to measure their availability and performance for all VIES message exchanges.

The VMT interoperates with the national VIES systems and the results of the monitoring activities are exchanged with the Taxation Statistical System to produce updated operational reports.

⁶ Council Directive No 2006/112/EC of 28 November 2006 on the common system of value added tax;

Council Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of value added tax and repealing Regulation (EEC) No 218/92.

VMT can be extended to cover new types information exchanges and re-used to monitor the operations of other information systems.

VIES Statistical System & Taxation Statistical System (VSS & TSS)⁷

VSS and TSS (currently under development) are part of the VIES system. In the future, they will be also integrated into VAT Refund.

VSS and TSS allow monitoring the operations of the Fiscalis information systems, providing reports trends and forecasts.

VSS development started in parallel with the development of VIES Monitoring tool in 1997. VSS has been operational since 1999. TSS development started in November 2011. TSS will be a major evolution of VSS: it will expand the current VIES Statistical System to enable better predefined reports and the production of ad-hoc reports as well as national reports measuring performance of national systems against the targets set in the Taxation Service Level Agreement (SLA). TSS will in addition integrate data for VAT Refund Operations. TSS will become operational by 01/01/2013.

VSS and TSS are part of the VIES and VAT Refund system and report on their operational performance.

VSS and TSS are linked with other systems: they use input from a series of data sources, including the VIES Monitoring tool, the VIES-on-the-Web systems and other systems.

In terms of reusability, VSS and TSS can be extended to monitor the operations of other systems, as for instance the upcoming VAT Mini-One Stop Shop.

⁷ Council Directive No 2006/112/EC of 28 November 2006 on the common system of value added tax;

Council Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of value added tax and repealing Regulation (EEC) No 218/92;

Council Directive 2008/9/EC of 12 February 2008 laying down detailed rules for the refund of value added tax, provided for in Directive 2006/112/EC, to taxable persons not established in the Member State of refund but established in another Member State;

Council Regulation (EC) No 143/2008 of 12 February 2008 amending Regulation (EC) No 1798/2003 as regards the introduction of administrative cooperation and the exchange of information concerning the rules relating to the place of supply of services, the special schemes and the refund procedure for value added tax.

VAT exchange of e-forms (VEF)⁸

Electronic forms for VAT allow the Member States to exchange, via a standardised format, the following VAT-related information:

- spontaneous data and information request according to articles 5 and 19 of Regulation 2003/1798/EC;
- notification of an administrative decision to other Member States who communicate it to their taxable persons according to articles 14 and 16 of Regulation 2003/1798/EC;
- Information in case of suspected fraudulent operations according to article 17 of Regulation 1798/2003 and article 4, §4 and §5, of Regulation 1925/2004.

Electronic forms are exchanged via the CCN Network operated by the Commission.

Development of VAT-related e-forms started in 2008. The recast of the Regulation for Administrative Cooperation in the field of VAT has led to the creation of new e-forms.

There are no European components supporting the exchange of e-forms with the exception of a test tool used to ensure conformity of the different national implementations of e-forms with the common EU specifications.

VAT on e-Services (VoeS)⁹

VAT on e-Services is a special Value Added Tax scheme for non-EU businesses providing electronically supplied services to EU consumers; that is, private individuals and non-business organizations. The scheme does not apply to electronic services provided by non-EU businesses to EU businesses. To prevent the need for such non-EU businesses registering in every EU member state where they supply customers, this special scheme allows them to register and account for EU VAT in a single EU Member State of their choice.

⁸ Council Regulation No 1798/2003 of 7 October 2003 on administrative co-operation in the field of value added tax and repealing Regulation (EEC) No 218/92; Commission Regulation No 1925/2004 laying down detailed rules for implementing certain provisions of Council Regulation No 1798/2003/EC concerning administrative cooperation in the field of value-added tax.

⁹ Council Directive No 2006/112/EC of 28 November 2006 on the common system of value added tax; Council Regulation No 1798/2003/EC of 7 October 2003 on administrative co-operation in the field of value added tax and repealing Regulation (EEC) No 218/92.

The non-EU business providing electronic services to EU customers submits electronically its VAT declaration to the Member State with whom it has registered for the scheme (Member State of Identification). The Member State of Identification passes the VAT on to the Member State where the tax is due, i.e. Member State of Consumption of the electronic services.

Information is exchanged via the Common Communication Network (CCN) operated by the Commission.

The system is operational since 2003. An upgrade of the actual system is planned for 2012. The enhancement is subject to the approval of the Member States.

VoeS is a distributed trans-European system with national components in each Member State. The Commission has developed a testing tool to ensure that the VoeS national components developed by the Member States conform to the common specifications of the system.

VIES-on-the-Web (VoW)¹⁰

The VIES-on-the-Web allows businesses active in intra-EU supplies to confirm in real-time the validity of the VAT identification number of their customers via Internet and the VoW is therefore of crucial importance for ensuring the smooth functioning of the Single Market.

VoW can be accessed following this link: http://ec.europa.eu/taxation_customs/vies/

The VIES-on-the-Web is a central application hosted by the Commission. It has no national components. VoW acts as a message broker that dispatches the requests received from the Internet to the relevant Member States via the VIES system.

¹⁰ Council Regulation No 1798/2003/EC of 7 October 2003 on administrative co-operation in the field of value added tax and repealing Regulation (EEC) No 218/92.

VAT Refund (VREF)¹¹

VAT Refund allows EU traders to electronically submit claims for the refund of VAT paid in Member States where they are not established.

The new VAT Refund procedure is laid down in the Council Directive 2008/9/EC. This Directive simplified the recovery procedure by allowing traders to directly submit an electronic VAT Refund application to their own tax authorities for VAT incurred in another EU Member State.

VAT Refund has been operational since 01/01/2010.

VAT Refund is a distributed trans-European system with VAT Refund servers located in each Member State. Centrally, there exists a test application – used to ensure the compliance of national components with common EU specifications.

The information flow in VREF runs between national components (i.e. national VAT Refund servers) through the Common Communication Network (CCN). In more details:

- A trader registered in a certain EU Member State submits an electronic application for a refund of VAT incurred in another Member State. This electronic VAT refund application will have to be made directly to the tax administration of the Member State where the trader is established (Member State of Establishment).

- The tax administration of the Member State of Establishment forwards the trader's claim electronically to the relevant Member State for processing (Member State of Refund) via CCN.

The trader will receive the refund of VAT through its Member State of Establishment. In November 2011, more than 600.000 messages were exchanged through the system.

¹¹ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax;

Council Directive 2008/9/EC of 12 February 2008 laying down detailed rules for the refund of value added tax, provided for in Directive 2006/112/EC, to taxable persons not established in the Member State of refund but established in another Member State.

Council Regulation (EC) No 143/2008 of 12 February 2008 amending Regulation (EC) No 1798/2003 as regards the introduction of administrative cooperation and the exchange of information concerning the rules relating to the place of supply of services, the special schemes and the refund procedure for value added tax.

3. DIRECT TAX SYSTEMS

Electronic forms for Direct Taxation (DEF)¹²

Electronic forms for direct taxation allow the Member States to exchange via a standardised format the following information:

- Exchange of Information on Request (including Feedback form) or spontaneous information related to the Mutual Assistance in the field of direct taxation;
- The e-forms may be subject to integration within another application allowing to share country profiles between the MS administrations;
- The e-forms may be further extended to cover exchanges with OECD countries.

Electronic forms are exchanged via the Common Communication Network (CCN).

Development of direct taxation-related electronic forms started in 2008.

The Direct Tax e-forms have been developed in close contact with the OECD. Version 2 of the e-forms, due later in 2012, has taken into account comments by users and by the OECD, and it is expected that Version 2 will be recommended by the OECD as a global standard for electronic exchange of information.

Non-EU countries are welcome to contact the Commission if they would be interested in making use of this platform; an offer already taken up by several countries. The Commission could also consider making the e-learning module available for non-EU countries.

Taxation on Savings Exchange System (ToS)¹³

Directive 2003/48/EC requires the Member States to exchange information so as to enable interest payments made in one Member State to residents of other Member States to be taxed in accordance with the laws of the state of tax residence.

¹² Council Directive No 77/799/EEC of 19 December 1977 concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation.

¹³ Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments;
Council Decision of 19 July 2004 on the date of application of Directive 2003/48/EC on taxation of savings income in the form of interest payments.

ToS is a system for the exchange of data related to taxation on savings among the Member States. National administrations collect and exchange data among them.

By making this information exchange operational, ToS supports the tax administrations of the Member States in ensuring that the correct amount of tax is paid on savings income.

The Commission's intervention is limited to overall coordination of the system (e.g. defining the structure of the information to exchange, development and maintenance of common specifications, development and maintenance of a common test tool).

The system has been operational since 2007

ToS is made up of national components (ToS applications in the Member States) and European components, i.e. the Common Communication Network CCN and the ToS test application.

National ToS applications exchange information with each other via the secure and encrypted email service of CCN, CCN/Mail2.

In ToS, the exchange of information runs as follows:

- Any payee who receives savings income from a paying agent established in another Member State has the details about them collected and verified by that paying agent.
- The paying agent reports that information and information about the savings income payment to its own tax administration.

The tax administration of the Member State provider passes this information to the tax authority of the country or territory in which the individual is resident (Member State consumer).

TIN-on-the-Web (ToW)¹⁴

The aim of the TIN on-the-Web system is to validate the syntax of Tax Identification Numbers (TIN) over the Internet. By using ToW, the banking community will be able to provide more accurate and precise information related to the Taxation of Savings, in accordance with Directive 2003/48/EC.

The system will be used to check the validity of Tax Identification Numbers.

¹⁴ Same as Taxation on Savings (ToS) system.

The entry into operations of ToW is foreseen for early 2012.

The application will be hosted by the Commission as a single, central stand-alone application with no national components. ToW will be a key component of the Taxation on Savings IT system.

4. RECOVERY

Electronic forms for Recovery of Claims (REF)¹⁵

Electronic forms for Recovery of Claims allow the Member States to exchange via a standardised format requests for mutual assistance on recovery – i.e. requests for information, notification, recovery measures and precautionary measures.

Within the EU there is, since 1st of January 2012, a Uniform Instrument Permitting Enforcement (UIPE) and a Uniform Notification Form (UNF) aiming to solve problems of acknowledgment, replacement, translation of instruments of other Member States as well as to reduce the workload for the requested MS.

The UIPE is created automatically when the electronic request form is filled out and the UIPE is translated automatically.

Electronic forms are exchanged via the CCN.

¹⁵ Council Directive 2008/55/EC of 26 May 2008 on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures;
Commission Regulation (EC) No 1179/2008 of 28 November 2008 laying down detailed rules for implementing certain provisions of Council Directive 2008/55/EC on mutual assistance for the recovery of claims relating to certain levies, to certain levies, duties, taxes and other
Council Directive 2010/24/EU of 16 March 2010 concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures.

**e-COOPERATION: INFORMATION TECHNOLOGIES THAT
MAY ALLOW FOR EXCHANGING INFORMATION BETWEEN
NATIONAL AND INTERNATIONAL ENTITIES**

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Secretary
Secretariat of Federal Revenues
(Brazil)

Contents: 1. Public System of Digital Bookkeeping (SPED). - 2. Growth and consolidation of sped. - 3- Current sped infrastructure

1. PUBLIC SYSTEM OF DIGITAL BOOKKEEPING (SPED)

1.1. Creation

Established by Decree No. 6.022 of January 22, 2007, the Public System of Digital Bookkeeping (SPED) is a further step in the computerization of the relationship between tax authorities and taxpayers, providing further interaction and sharing technological solutions between public entities with great benefits to the society.

Its creation was an integrated initiative of Federal, state and municipal tax administrations, in accordance with the Constitutional Amendment No. 42, December 19, 2003, and also counted with the joint participation of 17 institutions, including government agencies, class councils, associations and civil organizations.

The SPED brought great innovation by signing 27 cooperation protocols between the RFB and companies from different segments of the private sector, aimed at developing and disciplining their joint work. This allowed for the early planning and identification of solutions for the compliance of obligations, given the requirements by the tax administrations.

The participation of these companies in pilot projects contributed to the improvement of tax obligations compliance required by the tax legislation, giving these instruments a greater degree of

social legitimacy, establishing a new relationship based on mutual transparency, reflecting positively in the society.

1.2. Premises

Its design is based on the use of digital certificates for signing electronic documents, thus ensuring the legal validity of the accounting books and tax electronic documents transmitted by taxpayers to the tax administrations. This transformation from paper to digital contributes to the initiation of an electronic government (e-Gov) in the public administration of the country.

The SPED promotes the integration between tax administrations through the standardization and the exchange of tax and accounting information, as well as the streamlining and standardizing of taxpayers obligations with the establishment of a separate single transmission of obligations to different control entities.

These proposals will expedite fraud identification through improved process control, faster access to information and more effective monitoring of operations with cross-controls and electronic audits.

1.3. Benefits

Among the benefits that SPED has brought to the taxpayer, to TAs and to the society, are the following:

- Cost reduction, with the rationalization and simplification of general obligations;
- Standardization of information that the taxpayer provides to the different federal units;
- Preserving the environment and lower costs by reducing the paper consumption
- Reducing the time spent with the presence of fiscal auditors at the taxpayer premises;
- Strengthening the control and surveillance through the exchange of information among tax administrations;
- Fast access to information;
- Possibility of exchanging information between taxpayers from a determined layout;

1.4. Projects

Their development began with SPEDs three big vertices: the Digital Bookkeeping (ECD), the Digital tax Bookkeeping (EFD) and the Electronic Invoice (NF-e).

Currently the following projects are also in process: Accounting Tax Transition Control (Fcont), Digital tax Bookkeeping PIS / Pasep and Cofins (EFD PIS / Cofins), Electronic Bill of Lading (CT-e), Electronic Invoice Services (NFS-e) and Integration of RFB Internal Systems (DW SPED and ReceitanetBX).

Among the SPED innovations still in process are the development of Digital tax Bookkeeping of Labor and Social Security obligations (Social-EFD) and the Electronic Bookkeeping and Income Tax Returns and Social Contribution on Net Income of taxed Corporations by Income (e-Lalur) which will replace the DIPJ in 2014.

1.5. Updates

The Electronic Invoice (NF-e), designed in 2005, is coordinated by the National Meeting of State Coordinators and Tax Administrators (Encat) and developed in partnership with the RFB and state tax administrations, the project also incorporates the SPED. Its production started in September 2006 and it replaces paper invoices Models 1 and 1A. It is mainly used in business -to-business transactions, and aims to control the ICMS and IPI.

There are now over 768 000 businesses throughout the country emitting electronic invoices.

The number of NF-issued now exceeds 4.3 billion.

Electronic Bill of Lading (CT-e) is the new model of digital document that can be used to replace one of the following modes of transportation: road, waterway, air, rail, or invoices for services when used in freight transportation.

Currently over 34.2 million CT-e have been authorized and are stored in the SPED. So far, 503 companies participated in the pilot project of issuing CT-e. The criteria for the mandatory adoption of the new document by the transport companies are not yet established.

The Digital Bookkeeping (ECD), also known as SPED - Accounting, was created to replace the traditional paper bookkeeping by their equivalent digital file. From 2010, the presentation of bookkeeping in this format became mandatory for all companies subject to income tax based on taxable income.

Only in 2011, 156,926 companies forwarded a total of 248,955 digital books to the SPED nationwide.

The Digital Tax Bookkeeping (EFD) or Sped-Tax allows the RFB and the State Finance Secretaries and the Federal District to have access to all tax documents sent and received by institutions, as well as data from the calculation of the ICMS and IPI.

In 2010, about 63,000 businesses were required to submit EFD files, being received 496,507 files, on a monthly basis.

In 2011, the number of businesses forced to file the EFD was over 200 thousand, 1,380,287 files were transmitted, which caused us to reach a total of 2,253,581 files approved.

The Digital Tax Bookkeeping of PIS / Pasep and Cofins (EFD-PIS/ Cofins) is mandatory for corporations subject to the calculation of these social contributions, in the cumulative and noncumulative regime.

The EFD-PIS/Cofins deals with all aspects involving the calculation of contributions and their credits, as well as the various uses and/or their deferral, and improving the internal analysis processes of requests for reimbursement and compensation, monitoring and the RFB collection.

In addition to companies paying income tax, from March, 2012 all corporations subject to taxation on Income Tax based on estimated or certain income will also be required to submit EFD-PIS/ Cofins.

The EFD-PIS/Cofins is submitted monthly, the file should be forwarded, after its validation and digital signature until the fifth (5th) business day of the second month following the referred bookkeeping.

The Tax Accounting Control Transition (FCONT) is a bookkeeping of the balance sheet and result in double entry, which considers the methods and criteria applied by the tax legislation on December 31, 2007, by the amendments introduced by Law 11,638 of December 28, 2007, and the arts. 37 and 38 of Law 11941 of May 27, 2009.

In 2011, out of 170,000 (business taxable income) 123,152 (original) electronic accountings for the year 2010 were approved.

The Electronic Invoice Services (NFS-e) seek to define a conceptual model for all municipalities in the country.

The Integration Module of RFB Internal Systems (DW SPED and ReceitanetBX) is translated into a set of tools used by the RFB to cross data from different SPED systems, enabling risk management and fraud prevention

2. GROWTH AND CONSOLIDATION OF SPED

Currently, the RFB offers the Economic Information Statement of Corporations (DIPJ), the Digital Bookkeeping (ECD) and Tax Accounting Control Transition (FCONT), with redundant information, resulting in increased obligations, and consequently, increasing costs in Brazil.

Moreover, data collection by the DIPJ is a hermetic process, not related with the more detailed data from SPED, complicating the selection and programming process of taxpayers.

From this scenario, the SPED team began to implement the specific Electronic Book of Calculation of Taxable Income (e-Lalur), through the integration of DIPJ, ECD and FCONT in one unique generator, validator and signee Digital Bookkeeping program.

The aim of this new system is to eliminate redundant information in the accounting, in LALUR and in the DIPJ, facilitating compliance, and improving the quality of information for the RFB selection and programming areas.

We are also developing the Digital Bookkeeping of Social Security and Labor obligations (Social-EFD) that will standardize payroll items and layout, replacing the existing obligations under the RFB, the Social Security and the Ministry of Labor.

The social-EFD provides a change in the pension credit on the corresponding company's payroll. We are moving towards the centralization for the compliance of the obligation.

Thus, the replacement of the GFIP by the DCTF-Prev will bring the following changes to the process:

- Definition and statement of the social security contribution (CP) on revenue and payroll, in a centralized form (corresponding Company);
- Delivery of the EFD-Social, detailing the generating facts and calculation bases of the CP payment for the business and consolidated in one final record by company;
- Delivery of the DCTF-Prev, declaring the debits on the CP sheet by company;
- Delivery DCTF, declaring the debits of the CP on revenues, by company.

3. CURRENT SPED INFRASTRUCTURE

The volumes of data sent by companies require large investments to ensure speed and security in the transmission and storage of information. Currently, the SPED has 64 servers nationwide, with 150 TB of fast disk storage capacity and 120 TB on hard drives. The investment in equipment and technology development to date has been R\$ 157 million.

**e-COOPERATION: INFORMATION TECHNOLOGIES THAT MAY
ALLOW FOR XCHANGING INFORMATION BETWEEN NATIONAL
AND INTERNATIONAL ENTITIES**

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Contents: Summary. - 1. World Customs Organization..- 2. Customs information exchange tools. - 3. WCO events. - 4. Conclusion

SUMMARY

One of the essential agendas of the World Customs Organization (WCO) is to promote information exchange between Customs administrations, international organizations and other stakeholders. The WCO's strategy for information exchange is captured in the Customs in the 21 Century(C21) policy document whose main building blocks include Globally Networked Customs (GNC) and Coordinated Border Management (CBM), both of which endeavor to materialize the concept of information exchange into Customs daily practice. In addition, a staggering development in the information and communication technology (ICT) and Customs active adoption of ICT have greatly contributed to a wealth of information exchange, while facilitating Customs modernization and reform.

As a global leader in assisting its 177 Members with information exchange strategies, the WCO has several instruments, standards, guidelines, and tools that contribute to the exchange of information in the Customs context between national and international entities. The WCO's achievements in the promotion of information exchange using ICT have been extensive, far-reaching and dynamic. They cover an array of Customs areas such as cross border data requirement, enforcement, environmental protection, and IPR regulation. These are some highlights.

- WCO Data Model: a set of combined data requirements to meet the procedural and legal needs of cross-border regulatory agencies including Customs, transportation authorities, and other border agencies.
- Customs Enforcement Network (CEN): a global system sharing and disseminating information on Customs offences in a timely, reliable and secure manner through the WCO's network of Regional Intelligence Liaison Offices (RILO).
- Customs Enforcement Network Communication (CENComm): a web based communication system for Customs officers worldwide to fight illicit trade.
- ENVIRONET: a real-time communication tools for information exchange and cooperation in the area of environmental border protection among Customs administrations, competent national agencies, international organizations and their regional networks.
- Interface Public Members (IPM): a secure communication tool for the exchange of information between IPR right holders and Customs administrations.
- A guideline on Advance Passenger Information System (APIS): a joint development by the WCO and the International Air Transport Association (IATA) aimed to facilitate movement of passengers while maintaining appropriate control.

1. WORLD CUSTOMS ORGANIZATION

The World Customs Organization (WCO) is the only intergovernmental organization exclusively focused on Customs matters, and represents 177 Customs administrations across the globe that collectively process over 98% of world trade. As the global center of Customs excellence, the WCO assists its members to achieve their objectives, by developing international standards and tools, providing a forum for cooperation and information exchange, conducting research, and delivering capacity building.

The organization is the steward of several vital international trade instruments which include:

- The Harmonized System (HS): an international protocol for standardized goods classification, virtually all merchandise crossing borders is classified based on the HS nomenclature;
- The revised Kyoto Convention (RKC): the world's "trade facilitation" instrument ratified by 78 countries; and
- The SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework): the WCO's supply chain security instrument and a collection of 17 standards on Customs to Customs network arrangements and Customs to Business partnerships.

In recent years, the WCO's policy role has become wider than ever, as Customs functions encompass revenue collection, controls for traded goods, community protection, trade facilitation, and supply chain security. Customs are thus increasingly considered as a key contributor to economic growth, social development, and national security.

1.1. Introduction

1.1.1. Globally networked customs

The WCO's strategy for the promotion of information exchange is encapsulated in Globally Networked Customs (GNC), one of the ten building blocks of Customs in the 21st Century (C21). C21 is a WCO strategy paper that offers guidance for the modern role and mission for Customs. Among its ten building blocks, GNC is an inclusive, interconnected Customs to-Customs information-sharing system to support and improve the functioning of the international trading system, national economic performance, and the protection of society and fiscal management. It has been widely recognized that information exchange between Customs administrations must constitute an essential element of the GNC framework.

From 2009, the WCO Members have embarked on a discussion with aims to putting the GNC concept into practice. In 2011, the WCO Council agreed that GNC is a systemized approach, not an IT system. The approach is built around agreed business rules, protocols, standards and guidelines. The five Subject Expert Groups were installed: Business Process Modeling (BPM), IT, Legal, Capacity Building and Governance. The BPM Expert Group came up with the concept of Utility Blocks, where the WCO's existing standards are brought together to form information exchange clusters around a specific area of Customs activity such as AEO (Authorized Economic Operator), commercial fraud, supply chain security or valuation. All of these Utility Blocks form a library of GNC international standards for the exchange of commercial or enforcement data, with Members free to select whichever Utility Blocks they wish to use. It is impossible to overstate the importance of these Utility Blocks, as using them means that all the prerequisites for the global exchange of information (e.g., what data to exchange, what rules to comply with, which entities would be involved) would be in place. The private sector has been vigorously engaged in the analytical process and confirmed GNC's significant potential benefits. GNC discussions will continue to be held in the WCO arena and a final feasibility study of GNC will be made available to the 2012 June Council.

1.1.2. Coordinated border management

Coordinated border management (CBM) is another major building block in C21 and now recognized by the Customs community as a key strategy for addressing the challenges of the 21st century such as growing international trade volume, enhancing international supply chain security, facilitating natural disaster relief, and others. CBM is intended to encourage governments and individual border agencies to engage one another more actively to ensure better and smarter management of national borders. Information exchange is the key to a successful coordinated border management system – much can be accomplished through vigorous communication between Customs administrations and other related parties such as international organizations, traders and other government agencies. In pursuing the CBM concept, Information and Communication Technologies (ICT) play an important role in materializing the goals of CBM and better enable all related parties – including national and international entities – to exploit the benefits from the CBM.

1.1.3. Information technology in customs

Nowadays, ICT is not just an enabler, it is fundamental to Customs in fulfilling its core responsibilities. Adequate ICT infrastructure is essential for introducing modern Customs practices and tools such as risk management, post clearance audit (PCA) and Single Window environment. Over the past decades, the adoption of ICT in Customs has greatly contributed to Customs modernization and reform by simplifying Customs procedures, improving transparency, diminishing corruption, and reducing time and cost. According to a recently conducted WCO study, a great number of Customs administrations worldwide are operating a Customs automated cargo clearance system (ACS). In an era of declining resources and ever increasing trade flows, ICT can assist Customs and its partner agencies in doing more with less resource.

2. CUSTOMS INFORMATION EXCHANGE TOOLS

2.1. Overview

Assisting the WCO members with an array of information exchange tools and instruments is one of the utmost priorities of the WCO. This is because improving ICT capabilities proved to be a most effective way for strengthening Customs operational capabilities. With the staggering advancement in ICT, the WCO has been highly intent on developing information exchange tools and instruments as part of

Customs modernization and reform efforts. As a consequence, the WCO's achievements in the promotion of information exchange using ICT have been extensive, far-reaching, and dynamic over the past decades.

First, the WCO Data Model, a standardized set of data requirement for cross border transaction, was created in 2001 with a view to nurturing an environment encouraging information exchange and to streamlining and harmonizing border procedures. With the objective of fortifying Customs enforcement capacities which often demand close co-operation and information sharing between national and international entities, the WCO launched Customs Enforcement Network (CEN) in 2000 and Customs Enforcement Network Communication (CENComm) in 2004 respectively. Several international Customs enforcement operations were successfully conducted with the active participation of relevant international agencies including the UNODC (United Nations Office on Drugs and Crime), INTERPOL (International Criminal Police Organization), UNEP (United Nations Environmental Programmes), and EC (European Commission).

ENVIRONET is a real-time communication tool for information exchange for environmental border protection among Customs, enforcement authorities, international organizations and their regional networks. In addition, with an idea of interconnecting Customs and IPR right holders, the Interface Public Members (IPM) was developed in 2010 as a secure communication tool for the exchange of information on Intellectual Property Rights (IPR). In the WCO database, there are currently more than 40 companies and their products and registered marks. The IPM proved to be an outstanding tool for detecting IPR violations in the border procedure. From the 1990s, the WCO, IATA (The International Air Transport Association) and ICAO (International Civil Aviation Organization) have jointly developed and maintained the Advance Passenger information System (APIS) to facilitate the movement of passengers with better information exchange between Customs and airline industry.

2.2. WCO Data Model

The trade and transport community continues to seek simplification of data requirements for international trade transactions, on account of government regulations at the border. It was argued that the global harmonization and simplification of procedures could be achieved by simplifying the underlying data requirements of government agencies. In 1996 the heads of state and governments of the world's seven largest economies determined that confusing, redundant and non-

standard systems of data had become a non-tariff barrier to trade. As a consequence, a group of customs experts was established. The mandate of the G7 customs experts was to standardize and reduce the amount of data necessary to meet customs requirements. The G7 believed that this standardization and reduction of data would improve the flow of goods across international borders and reduce costs and complexities associated with meeting government requirements. As part of this project, harmonized data sets for the G7 countries were developed for each of the basic customs procedures, with the emphasis on minimizing the data requirements by elimination, simplification and standardization.

The G7 work was taken over by the WCO in 2001, and the WCO Data Model Version 1.0 introduced.

The WCO Data Model is a set of carefully combined data requirements that are mutually supportive and which will be updated on a regular basis to meet the procedural and legal needs of Customs and other cross-border regulatory agencies. It is consistent with other international standards such as the United Nations Trade Data Elements Directory (UNTDDED). The WCO Data Model not only includes data sets for different customs procedures but also information needed by other Cross-border Regulatory Agencies for the cross-border release and clearance. The WCO Data Model supports the implementation of a Single Window as it allows the reporting of information to all government agencies. This instrument is already 11 years old and is seeing increased use by WCO members, industry and trade, international organizations concerned with trade facilitation and data standards. The increased adoption of the WCO Data Model will benefit trade by reducing the cost of documentation and time taken in fulfilling regulatory procedures.

The WCO Data Model has the following information: the context of information exchange: business process models; the content of information exchange: data sets and code lists; the structures of information exchange: Information models; the technical solutions for information exchange: UN/EDIFACT and XML message design.

2.3. Customs Enforcement Network (CEN)

Intelligence is a vital element of enforcement for Customs administrations which have to perform control missions whilst at the same time facilitating trade. In order to prevent control and search operations from impeding the free movement of persons, goods and means of transport, Customs services are implementing intelligence-

based selective and targeted controls. Information exchange on potential or real risks of offences is therefore vital if Customs services are to implement their enforcement strategy. To enable its Members to combat transnational organized crime more effectively, the WCO has developed a global system for gathering data and information for intelligence purposes. The Customs Enforcement Network (CEN) is not only a database; it is also a Web site and an encrypted communication tool facilitating the exchange and use of information and intelligence. It offers the possibility of sharing and disseminating information on Customs offences in a timely, reliable and secure manner with direct access 24 hours a day. Operational since July 2000, the CEN offers 2,000 Customs officers representing more than 150 countries access to:

- A database of (non-nominal) Customs seizures and offences, comprising data required for the analysis of illicit traffic in the various areas of Customs competence.
- The CEN web site (CWS) containing alerts as well as information of use to Customs services.
- A concealment picture database to illustrate exceptional concealment methods and to exchange of X-ray pictures.
- A communication network facilitating co-operation and communication between Customs services and CEN users at international level.

The CEN system electronically links all Customs administrations through the WCO's network of global Regional Intelligence Liaison Offices (RILO). These RILOs contribute to the CEN by gathering national information and reporting the data into the system.

They in turn benefit by being able to use the common database to conduct regional or interregional analyses. Each participating WCO Member nominates a National Contact Point (NCP) that then acts as a hub between a national Customs administration, the relevant RILO and the WCO Secretariat. The CEN Management Team (CENMaT) is the official WCO body responsible for overseeing the overall management of the CEN system and reports to the WCO Enforcement Committee. CENMaT convenes annually to discuss future developments, further enhancements and policy issues.

The CEN database records Customs seizures and offences classified under several different product headings covering the main fields of Customs enforcement activity, including but not limited to: Drugs; Tobacco; Beverages; CITES (endangered species of flora and fauna); Intellectual Property Rights (IPR –counterfeiting and piracy); Precursors; Tax and duty evasion; Weapons and explosives; Currency;

Nuclear materials; Hazardous materials; and other prohibitions and restrictions (works of art, stolen vehicles, anabolic steroids, etc.) More than 425,700 seizure cases were collected in the CEN database from 2000 to 2009.

2.4. Customs Enforcement Network Communication (CENComm)

Along with the CEN, the WCO conceived a tool to assist the WCO Members in fighting illicit trade more effectively and efficiently. The WCO developed a specially designed secure messaging system for cross border operations in 2004 which is known as Customs Enforcement Network Communication (CENComm). This is a tool that facilitates the exchange and use of data in a timely, reliable and secure manner with direct access available 24 hours a day. Email management and information storage are just two of its key features.

The application is hosted by the WCO and users can access it via the internet using an ID and password issued by the WCO. As a web based communication system, it permits a closed user group of officers to communicate via encrypted channels for the duration of any Customs operation or joint Customs operation involving other law enforcement agencies. Several operations were organized using the CENComm since its inception. In 2011 alone, 36 projects, operations, and communication platforms were undertaken with participations from many stakeholders. Examples are as below.

- Project Global Shield (WCO/UNODC/INTERPOL): preventing the illicit diversion and trafficking of precursor chemicals which may be used by terrorist and other criminal organizations to manufacture explosive devices;
- ENVIRONET: global real-time communication tool for information exchange and cooperation in daily environmental enforcement;
- G8 INFO IPR: exchange of nominal information on IPR seizures;
- CARICC: Central Asian Regional Information Co-ordination Centre – permanent communication platform;
- AIRCOP Project (UNODC/WCO/INTERPOL/EC): operational communication between Airports; and
- WCO CENComm training platform.

2.5. Environet

Environmental crime is an increasing concern of the international community and governments. Customs plays a central role to control international trade in environmentally sensitive goods regulated by the multilateral environmental agreements (MEAs), and eradicate their illegal trafficking. The WCO Recommendation on actions against

environmental offences in June 2008 calls for increased efforts to cooperate and exchange information among all players responsible for implementing the MEAs. It could not be more emphasized that information sharing is essential for any successful enforcement. Little time is available for Customs frontline officers to detain any suspicious consignment for verification. Assistance via official channels may not be available in a desired time frame. Informal consultation and assistance from experts and other Customs colleagues in terms of identification, and whether a certain consignment is controlled by the MEAs would greatly facilitate rapid decision making on the ground.

Access to background information and assistance from professionals may also arm Customs officers with necessary knowledge and expertise. With this purpose, the WCO launched ENVIRONET in 2008.

ENVIRONET is a real-time communication tool for information exchange and cooperation in the area of environmental border protection among Customs administrations, competent national agencies, international organizations and their regional networks, as well as other enforcement authorities bearing similar responsibilities. As one of the CENComm applications, ENVIRONET is Internet based and accessible only to the closed user group (CUG) free of charge. Information transmitted here is encrypted and secured. ENVIRONET aims to: share best practices; provide training materials, identification guides, and manuals; exchange information on seizures, and possible on-going trafficking; create discussion forums on specific topics; facilitate assistance by experts; and facilitate cooperation between Customs administrations, competent agencies and international organizations. The scope of information exchanged in the ENVIRONET is:

- Endangered species covered by the CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora);
- Ozone Depleting Substances (ODS) covered by the Montreal Protocol on Substances that Deplete the Ozone Layer;
- Hazardous and other waste covered by the Basel Convention on the Control of Trans-boundary Movements of hazardous Wastes and Their Disposal;
- Persistent Organic Pollutants (PoPs) covered by the Stockholm Convention on Persistent Organic Pollutants;
- Certain hazardous chemicals and pesticides covered by the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade;

- Chemical weapons covered by the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction; and
- Living modified organisms (LMOs) covered by the Cartagena Protocol on Bio-safety to the Convention on Biological Diversity.

2.6. Interface Public Members (IPM)

Customs are the front line troops in the battle against counterfeit products. They account for about 90% of counterfeit goods confiscated in Europe, and 70% worldwide.

The Interface Public Members (IPM) is a secure communication tool for the exchange of information between IPR right holders and Customs administrations. IPM offers those who hold the rights access to WCO tools and publications related to the fight against falsification including the following:

- Genuine/fake data base which can be accessed by customs employees;
- Genuine/fake information provided by the national customs authorities;
- An overview of national legislation on intellectual property rights (project); and
- "Fake" reports per sector (project)

The program has security norms such as allowing holders to send information exclusively to the countries that they select. They also have complete control over the rights of access as well as the possibility of limiting circulation of sensitive information.

The Customs administrations can only access the IPM in reading mode. While participation in the national Customs program is free, the holders of the rights can register at a cost that corresponds to the annual company revenue. In the WCO database there are 40 companies which have joined the IPM program with its range of products and hundreds of registered marks. The first companies to register in IPM are: Sony, Diageo, Pfizer, HP, Louis Vuitton, Hewlet Packard, Lacoste, Procter & Gamble, Glaxo Smith Kline, Beiersdorf, Burberry, Nike, Puma, Servier, Longchamp, Philips. This synergy between the public and private sector has yielded excellent results in the past few years. The WCO is open to all those companies who wish to participate in IPM.

2.7. A Guideline on Advance Passenger Information System (APIS)

In order to cope with a dramatic growth in passenger traffic, Customs administrations implemented various measures to facilitate the movement of passengers while maintaining appropriate control. One of the measures developed in co-operation with the airline industry was the development of the Advance Passenger Information (API) System. The WCO and the International Air Transport Association (IATA) jointly developed the WCO/IATA Guidelines on Advance Passenger Information in 1993 as a tool to help their members implement this system.

In 2003, the WCO, in co-operation with IATA and International Civil Aviation Organization (ICAO), reviewed the Guidelines in order to take into account new developments surrounding air transport industry and border control agencies including Customs and published the 2003 edition of the API Guidelines. These developments include such items as security, data protection and mutual administrative assistance. By February 2011, WCO, IATA and ICAO formally adopted these guidelines in their respective organizations. The API Contact Committee comprising WCO, IATA and ICAO are currently working on guidelines for 'Interactive API', which is a more advanced method of passenger processing at airports. These guidelines are expected to be published in 2012.

3. WCO EVENTS

Technology and Innovation Forum: Acknowledging the references to technology in the Customs in the 21st Century policy document and the needs of WCO Members to have more information about inspection technologies, the WCO organized its Technology and Innovation Forum since 2009. The Forum's overall goal is to enhance exchange of opinions and experiences with regard to the use of technology in the Customs and border control context, while promoting a dialogue between technology suppliers and Customs administrations. The 2012 Technology and Innovation Forum takes place in March 2012 in Kuala Lumpur, Malaysia.

WCO IT Conference and Exhibition: The WCO launched the IT Conference and Exhibition from 2005. This event is acknowledged as one of the most successful events which embodies the aspiration of Customs and Business Partnerships. This event brings together

Customs leaders, IT experts and traders in order to share their views on IT technology, its latest solutions, and opportunities in the Customs environment. Under the theme of "Cloud Computing", last year's IT Conference was successfully held in Seattle with a large number of high profile participants. This year, the WCO IT Conference and Exhibition is scheduled 6-8 June 2012 in Tallinn, Estonia.

4. CONCLUSION

Information exchange is a vital component to reform and modernization of Customs administrations in the 21st Century. The WCO is a global leader in assisting its Members (177 Customs administrations from around the world) with information exchange strategies. This paper has provided a snapshot of WCO instruments, standards, guidelines, and tools that contribute to the exchange of information in the Customs context.

TOPIC 2

SATISFACTION AND QUALITY OF SERVICE PROVIDED BY THE TAX ADMINISTRATION TO THE TAXPAYER

MECHANISMS FOR MEASURING THE QUALITY OF SERVICE PROVIDED TO THE TAXPAYER AND RESULTS ACHIEVED

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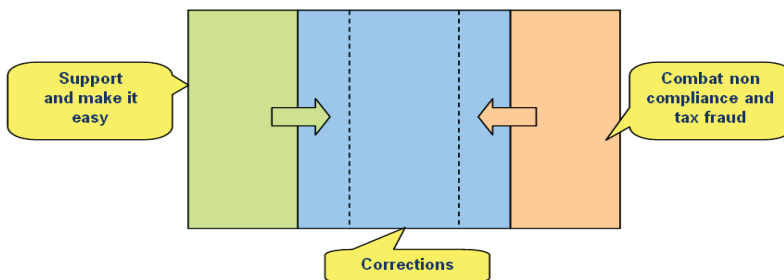
Contents: 1. Mission and vision. - 2. Brief overview of our services. - 3. Measuring the taxpayer experience. - 4. Methods. - 5. Results. - 6. Conclusions.

1. MISSION AND VISION

Our vision is “A society where everyone is willing to do their fair share”. We focus a lot on the willingness to comply and we are trying to make it as easy as possible for the taxpayers to fulfil their obligations and take advantage of their rights.

Our aim is to get it right from the start; today though, we are spending resources on correcting tax returns where people have tried their best to comply but failed due to misunderstanding and complicated legislation. This is neither effective for the taxpayers nor for us.

This picture shows our focus shift.



We think its better to solve a situation early and we don't want to force taxpayers to certain channels. Instead, we focus to understand their situation and needs and build our information, e-services etc. based on this knowledge. In this sense, we see channels as tools.

Trust and a good taxpayer relation is something we see as a base for a pro compliant environment.

We also have a cooperative approach where we are working together with other agencies and industry organisations.

2. BRIEF OVERVIEW OF OUR SERVICES

We are striving to make it as easy as possible to comply and as a consequence we also want to solve any questions and clarify misunderstandings as early as possible.

As other organizations, we meet taxpayers in different channels but we are trying to focus more on characteristics and the root cause of the question instead of the channels. Our view is to see channels as tools to solve an issue.

The e-society gives possibilities to develop services in ways that were not possible before. Therefore, we prioritize development of e-services so taxpayers can find information and make transactions in a more efficient way. We move from more general information to more personalise.

We are also developing e-services together with other agencies in order to support taxpayer's needs. If you are going to start a company in Sweden, it is possible to do it by using a joint-agencies website. The taxpayer only need to access one website where they can get and provide necessary information in order to start a company. The website supports all the steps in the process and the taxpayer does not have to jump back and forth between different agencies.

Taxpayers can visit service offices for face-to-face meetings. We have 115 service offices in Sweden and the concept of these offices is to focus on the taxpayer's situation and it is cooperation between Swedish Tax Agency, The Swedish Social Insurance Agency and The Swedish Pension Agency.

In our call-centre we answer questions from taxpayers by phone and e-mail. In 2011 we answered 4, 4 million calls and 360 000 e-mails.

It's also important to underline that every interaction with the tax agency is a possibility to give service. Even in an audit situation we try to focus on how to get it right in the future and are open to answer any questions.

3. MEASURING THE TAXPAYER EXPERIENCE

We believe that good quality of service is when we can help taxpayers get it right from the start in a cost efficient way. The interaction with us and how we behave should always be based on respect for the taxpayer. To measure this is to measure taxpayer's perception of our service.

What we think is efficient, may turn out not to be, and what we think is good service is not necessary so from the taxpayers perspective. We have understood the importance of not building our service based on our own internal view of reality.

In our surveys taxpayers state that they are not that interested in how we internally handle cases as long as we are doing it in a just and fair way. They are, however, interested in getting information about their situation, their case, and who they can talk to if they have any concerns.

4. METHODS

We use both quantitative and qualitative methods to measure our service and the measuring is carried out by external companies but initiated by the tax agency.

In our quantitative surveys, we "scan" channel experiences, like perceived service in our call-centre, if the staff was helpful, if our information is understandable etc. However, we do not, in these surveys, get enough information about the underlying reason for the experience. Therefore, we now focus more on qualitative studies in order to grasp this.

These studies are initiated when we want deeper knowledge about how a new legislation is working in reality, how taxpayers want to interact with us etc. In many of these qualitative surveys, we try to understand the feeling in the interaction with us. Is it a pleasant experience, based on mutual trust and helpfulness or not?

The quantitative studies we do for measuring the experience in our service offices and in our call centre are normally carried out four times a year. We also do other quantitative studies with a broader base of respondents, like representatives of all citizens or companies. These surveys are not carried out as frequently, most of them are on a yearly basis.

Our qualitative studies are normally focusing on a specific issue or functionality of legislation and they are therefore not done repeatedly concerning the same topic.

5. RESULTS

Here are some results from different studies done recently; in our quantitative surveys, we measure to what degree taxpayers agree or disagree with a statement.

I trust the way the Tax Agency handles its duties (percentages)

Citizens opinion		
	2010	2011
Agree (4+5)	66 %	62 %
Neither agree or disagree (3)	24 %	27 %
Disagree (1+2)	8 %	8 %
No opinion	3 %	2 %
Number of respondents	670	750

Businesses opinion		
	2010	2011
Agree (4+5)	62 %	68 %
Neither agree or disagree (3)	27 %	23 %
Disagree (1+2)	8 %	7 %
No opinion	2 %	1 %
Number of respondents	711	902

In general, the Swedish population trusts the Swedish Tax Agency to a higher degree than other government agencies.

We have worked for a long time trying to change the culture within the organisation from a “cops and robbers” mentality towards a more cooperative and understanding approach. The quality of service is not only to deliver the right answers, it’s as important to do it in a professional way.

A recent study concerning the perception of service in both the private and the public sector shows that consumers in Sweden are very satisfied with the service from the Swedish Tax Agency. Based on results from the study, the survey company made a “service score” in order to compare different companies and agencies. In this study, the Swedish Tax Agency was ranked as the best service providing government agency in the Swedish society. The motivation was as follows;

“In the government agencies class, the Tax Administration was in an absolute top position and won convincingly over the other agencies. In fact, the service score for the agency was so high that they ended up in the summary clearly ahead of most public companies regardless of line of business.”

Even if we are very proud of the result from this study, we realise that perceived quality of service is something you have to earn every day. We can not take it for granted.

We also measure if the public perceives that they receive a respectful and professional treatment from our staff, if they received an answer within reasonable time and if they got the help they needed.

In our service offices, most people agree to these statements and we can see a slight increase in the perceived quality of the service delivery. The charts show the percentage that agrees with the statement.

Visitors perception	2009	2010	2011
Respectful treatment	94 %	96 %	96 %
Answer within reasonable time	80 %	83 %	88 %
The help needed	91 %	92 %	94 %

The perceived quality from our telephone service has increased drastically during the last tree years.

Caller's perception	2009	2010	2011
Respectful treatment	65 %	86 %	97 %
Answer within reasonable time	51 %	75 %	85 %
The help needed	57 %	76 %	88 %

Listen to the taxpayers

A strong aim for us and other Swedish government agencies is to give service according to taxpayer's needs. This may sound obvious, but in reality, there are many reasons why we sometimes fail to achieve it. We have emphasised on the importance of understanding the taxpayer's needs. We have learnt the importance of listening to the taxpayer. Even if we think we know the needs, we don't. We always have to listen to the taxpayers.

We have examples of e-services, developed by us, that led to an increased compliance burden compared to the traditional paper process. Even if we had the best intentions when we developed the e-service, we did not understand the taxpayer's situation and developed it from our own beliefs of what we thought the citizens wanted and needed.

Taxpayer's needs are often very practically oriented. They want an answer according to their personal situation, not a general answer. They want to make sure that they understood what to do. They don't want to spend a lot of time and energy reading information. They want help in their reality! If they feel that our information is unclear or if they feel that they have a problem, most taxpayers want to call us in order to solve it. Of course we help them when they do, but in order to make a long term solution, we have to understand the root cause.

When we can meet their needs is when we can make it easier to comply and ease their compliance burden.

If we see situations handled in an inefficient way taking into account both the taxpayer's and the tax administrations perspective; is it then the taxpayer's behaviour that has to change or the tax administration's?

We believe that we, as a tax administration, in many cases can and should change the way we do things in order to make it easier for the tax payer. A complicated legislation should be our headache not the taxpayers. In reality, we try to ease the situation for the taxpayer by pre populating third party information and by trying to build our services from the taxpayer's perspective. In many cases it involves working together with other players like other agencies or trade organisations.

In many of our qualitative studies we film the interview with the taxpayers. It is very valuable to use quotes from taxpayers. Our strategy has been to bring in the taxpayers voice into our organisation. It's an excellent tool for us to broaden our understanding of how it can be to interact with us.

These quotes and films are used as bases for improvement. Both regarding what we do and also how we treat taxpayers.

Here are some quotes from Swedish taxpayers:

“After several attempts to send e-mails I now understand that the issue must be very short and very precise, otherwise the answer is vague or you refer to a whole document.”

“I can’t find information on your web site about what kind of tax certificate I have. Seems impossible to find, so now I am sitting waiting to get in contact with your call centre instead”

“Don’t just refer to your web site”

“I just want to say that the Tax Agency is great! You are always friendly and very helpful. I can not think of any institution, or company that is as service-minded as you are. Thank you for that! It makes life much easier for a person who works just over 100% and has a business of his own at the same time. I want to do the right thing but it’s not always so easy to understand all the legislation. You help me to do it right and that makes life much easier.”

6. CONCLUSIONS

Measuring service is to measure an experience. Even if we want to make it easier for taxpayers and even if try to be service minded, we are not always perceived the way we think.

A strong threat to success is when all the correct words in strategies stays in the documents. In order to change a culture towards more service orientation you need to bring the voice of the taxpayer into the organisation. To know what is perceived as good service is the only way for improvement.

We believe that deeper understanding of taxpayer’s situations helps us develop useful services that meet the needs and expectations of the taxpayers. This increases the possibility to get it right from the start and we can minimize time and recourses spent on correcting errors due to misunderstanding. This leads to efficiency both for us and the taxpayers. Emphasizing on root cause of demand and trying to develop services that makes life easier for citizens and companies is, as we see it, the way forward.

MECHANISM IMPLEMENTED FOR ASSISTING TAXPAYERS IN REMOTE GEOGRAPHICAL AREAS

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***Contents:** Summary .- 1. Introduction .- 2 Current approach for designing regional front-line services .- 3. Supporting our customers .- 3.1 Inland Revenue's range of services.- 3.1.2 How customers contact Inland Revenue 4. Conclusions*

SUMMARY

This paper discusses the service framework implemented by New Zealand's Inland

Revenue to assist taxpayers. A particular emphasis is given to those customers who could be considered remote, either because of location, infrastructure or access to technology. This paper describes the various resources that Inland Revenue has invested in to support remote customers, including joint initiatives with other agencies and government departments.

Three particular examples of 'remoteness' are discussed: those customers who are geographically remote within the territory of New Zealand (such as those located in the Chatham Islands); those customers who are considered remote, due to being based overseas; and those customers who have been made remote by the failure of urban infrastructure as a result of the impact of the Christchurch earthquake.

These three examples illustrate that Inland Revenue values retaining a local presence where appropriate and is committed to investing in improving and promoting its self-management options, such as online services that, when accessible and working well, make the location of the customer irrelevant. Finally, the experience of how Inland Revenue reacted to the Christchurch earthquakes and the feedback

received from impacted customers has provided valuable insights and innovative opportunities that Inland Revenue will take forward in the future.

1 INTRODUCTION

New Zealand is an island nation country of 267,847 sq. km with an extensive coastline of 6,880 kilometres.¹ It has a population of 4,429,592 people spread over two main islands.² This population is focussed in five main urban centres, with one third living in the city of Auckland. The remainder are geographically widespread and are often isolated by geography, infrastructure and at times resultant technological limitations. New Zealand has a multicultural population -68% European, approximately 14% Māori, 7% Pasifika and 9% of Asian descent³ -who are highly literate by world standards.⁴

New Zealand's revenue agency (Inland Revenue) undertakes both tax administration and various social policy duties, such as administering the student loan, child support and retirement savings (KiwiSaver) schemes.

Inland Revenue has approximately seven million customers. These include individuals, businesses and overseas-based customers. The wide variety of social and tax policies Inland Revenue administers gives customers cause to interact with the Department for a number of different reasons, at various stages in their lives.

For the majority of New Zealanders tax is deducted at source and they have little interaction with the tax system. Their tax position is established through the 'pay as you earn' (PAYE) deduction system and an annual return is generally not required for those with no further tax or social policy obligations (approximately 70% of individuals).

The simplification of the tax system in 2000 ended the need for interaction with Inland Revenue for many individuals. This has led to a profound change in terms of the nature of work undertaken by Inland Revenue, in that much of the Department's interaction with taxpayers now stems from complexities customers have with their affairs or from issues that need to be dealt with, such as debt and outstanding returns, or takes the form of giving technical advice. This change has also resulted in an additional emphasis on ensuring that customers

¹ www.nzterritory.com

² *Statistics New Zealand*

³ *New Zealand 2011 Rugby World Cup*

⁴ *Statistics New Zealand*

are aware of their tax and social policy obligations and know when to interact with Inland Revenue according to their circumstances.

The fundamental principle underpinning New Zealand taxation is voluntary compliance – that most people want to do the right thing and that sometimes they need assistance to do it. This notion of doing the right thing is a social norm that Inland Revenue is building further into our programmes of work. Recently Inland Revenue developed a Citizenship and Tax Education in Schools resource for teachers to use to build the idea of the ‘social norm’ of being a contributing citizen and paying tax.

2 CURRENT APPROACH FOR DESIGNING REGIONAL FRONT-LINE SERVICES

Two years ago Inland Revenue embarked on a programme to redesign our front-line services. This design is based on the following six principles:

- Redirecting non-customer-facing work away from regional offices over time and grouping it in main metropolitan centres to increase efficiency;
- Examining opportunities for increased specialisation in how we deliver our services;
- Increasing the visibility of Inland Revenue in communities through tailoring local advice, education and compliance activities to meet the needs and compliance behaviours of customers in each region;
- Retaining local counters for customers, and exploring further co-location opportunities with other agencies as a preferred approach for a local Inland Revenue presence. This supports the Government’s goal of delivering integrated cross-Government services and value for money;
- Managing customer-facing work nationally to provide a consistent customer experience throughout New Zealand; and
- Maintaining the flexibility to review, maintain or increase Inland Revenue presence in local communities as required, supporting compliance in its broadest sense.

This design will provide better value and better services to New Zealanders through standardised processes, reduced duplication and prioritized services to meet local needs and a consistent organisational approach to compliance.

As part of this approach every region has (or will have in time as we work through the programme) a regional profile. Establishing these regional profiles involves identifying the needs of customers (including tax agents) and their compliance behaviours in each specific area,

regional demographics and geographic spread so we can provide the right range of education, advisory and enforcement services to match community needs.

For example, recent research into a region where many customers are regarded as 'remote' due to geographical limitations regarding telecommunications structure and coverage reveals attitudes of concern for the long term. The area in question is New Zealand's least urbanised region with only 40% living in urban areas and has the second highest deprivation level⁵ and higher than the national average levels of unemployment. This research was aimed at understanding the attitudes, behaviours and underlying drivers of participation in the Hidden Economy. Some individuals and businesses look for ways to reduce their tax obligations. This may be by not declaring cash jobs, not reporting the trade of goods and services, failing to declare offshore income or income from property trading, income from organised crime, skimming takings from the till, or paying wages and salaries in cash. This behaviour reduces our tax revenue and cheats all New Zealanders out of funding for the services that support their communities.

This research revealed a wide set of 'drivers' that make people more inclined to participate in the Hidden Economy, including financial relief, financial win, friendship ('Cash jobs are okay') and conforming (Hidden Economy is 'normal', 'blatant'). The research revealed that people in this region have some deeply-felt reasons and justifications for participating in the Hidden Economy and that there is no community-level opposition to it. Overall, participants in the research tended to view the Hidden Economy as 'victimless'. While some⁶⁶ participants did perceive some harm arising from the Hidden Economy, these views were generally not widespread. Any campaigns or initiatives will therefore need to be linked to the community's values and have a long-term timescale. The starting point for designing initiatives will be related to the drivers of Hidden Economy participation, and additional impact may be gained from also considering the inhibitors.

⁵ Deprivation is a measure from the Department of Public Health, University of Otago, which uses 2006 Census information relating to income, home ownership, employment, family composition, qualifications, living space, communication and transportation.

⁶ At times, this report states that a specific view was shared by 'some people' or 'most people'. It is not possible to report exact numbers of people who shared a specific view in the qualitative aspect of the research as each group or individual discussion flowed according to the opinions of the participants present and were structured by a topic guide (see Appendix A) not a questionnaire. As a general rule for the qualitative results in this report; 'some participants' means the view was shared by approximately 10 to 30 per cent of participants, and 'most participants' means the view was shared by approximately 70 to 90 per cent of participants.

As part of this redesign of front-line services, we have introduced the new role of Community Compliance Officers (CCO's). This role is at the heart of increasing our engagement with local communities. Our CCOs will work face-to-face with customers in their communities to improve compliance through tailoring local advice, education and enforcement activities to meet the needs and compliance behaviours of customers.

We established this role in three small sites last year and, as we work through our programme redesign front-line services, both staff and customers are noticing the different approach. For example, a CCO stated, "[Customers] are actually grateful you've taken the time to go out, because they don't understand how they should be doing things. I was finding even in my Investigations role that some business people needed education and so I think it's a good thing IR has done. It's needed in the community." This regional compliance approach will be phased into another four sites from June 2012 and is discussed in greater detail under the section 'Working in the Community'.

3 SUPPORTING OUR CUSTOMERS

3.1 Inland Revenue's Range of Services

Inland Revenue has eighteen offices nation-wide where customers can make appointments and/or drop in, and shared premises, or part time offices, in 50 other locations. Inland Revenue also has phone contact centres and various expanding online services to support customers.

Inland Revenue also produces information for its external customers including newsletters, guides, booklets, brochures, posters and web content. For example Inland Revenue produces a community newsletter called Community-Wise. This is targeted at community groups and electorate offices and provides Working for Families Tax Credits, Child Support and Student Loan news. Inland Revenue produces key information in various languages, such as Punjabi and Chinese and provides support to customers with disabilities to access information and services.

Inland Revenue has also trialled using YouTube as a vehicle for sending out compliance messages and produces television advertisements around peak tax season (Peak season is when customers need to interact with Inland Revenue primarily due to their need to meet filing requirements).

3.1.2 How Customers Contact Inland Revenue

Inland Revenue is increasingly relying on technology to interact with its customers and has invested in new identification technology for both its phone and e-services. Below we have described the main ways in which customers contact Inland Revenue, apart from traditional written correspondence.

Phone

Inland Revenue's aim is to automate phone services as much as possible and to move customers to becoming self-managing of their tax affairs and social policy entitlements/obligations.

Contact Centres

Inland Revenue has four national contact centres that are available for all customers to call for assistance between Monday to Friday 8am to 8pm and Saturday 9am to 1pm. In the year 2010 to 2011 Inland Revenue answered nearly four million calls, with an average call time of just under eleven minutes.

Self-Service Lines

Inland Revenue offers a range of automated options through its 0800 self-service lines. Customers can order forms and guides and request personal tax summaries using the natural language speech recognition (NLSR) system. This lets customers use their voice instead of keying in numbers on the phone's keypad.

Speak to Inland Revenue (SPK2IR)

SPK2IR uses voice recognition to understand what the customer is describing, in their own words, and then gets them to the right person or information, partially validating callers on the way. This means fewer transfers and quicker calls for customers.

Voice Identification (ID)

Voice ID matches a caller's voice to a previously enrolled voice for that customer. It uses that person's own voice to authenticate identity, which improves and further speeds up calls with Inland Revenue. It only takes two minutes to enrol and it allows customers to use more services out of hours, such as the resetting of their online password to access e-services.

Internet Services

Inland Revenue has also developed and continues to improve its online application suite allowing customers greater options to self-manage their affairs.

Website

Inland Revenue's main website, www.ird.govt.nz, is one of the most visited government sites and won the Best Government Site category at the 2011 Net Guide Web Awards. The site contains a wealth of information that can be viewed, downloaded and printed, as well as calculators and tools to allow customers to work out their entitlements and obligations.

Online Services

Inland Revenue offers online services for customers, including business, tax agents and individuals. These online services allow customers to complete a variety of activities, such as authenticating and completing their tax returns and updating their details (phone, addresses, bank accounts) in real time.

These customers also have access to secure e-mail for contacting Inland Revenue.

In 2010 to 2011 964,904 (or 14% of) customers were registered for online services. The uptake is presently stronger among businesses than individuals.

Inland Revenue also operates a dedicated self-management tool for tax agents / intermediaries, where certain tasks can be undertaken on-line direct by the tax agent.

General Comment

The investment in technology described above means that the physical location of Inland Revenue customers is becoming of lesser importance. Provided they have the appropriate technology, customers who are geographically remote are able to interact with Inland Revenue just as well as those in major urban centres with access to broadband. Inland Revenue appreciates, however, that a number of the 'solutions' for remote locations rely on telecommunications connectivity, which can in some situations be a challenge. As at 30 June 2010 there were approximately 4.7 million mobile connections, 1.88 million fixed

line connections and 1.05 million fixed broadband connections. In New Zealand, around 300,000 customers still have dial up services. The broadband market continues to grow with fixed line broadband penetration increasing to 25% of the population. An estimated 61% of households now have fixed line broadband⁷⁷.

Working in the Community

The numbers of people living in remote geographical areas is quite small and so our ability to resource their needs is moderated by that. Inland Revenue invests in its face-to-face services in the community so that they meet local needs. The majority of work in this area is undertaken by a specialist unit, Community Relationships. Our primary way of providing direct support to customers in remote regions is through Community Relationships staff.

This business unit currently has 191 staff spread throughout the country providing approximately 175,000 advisory hours per year via one on one advisory support, seminars, workshops and working with other governmental agencies/industry associations. These staff engage with the community to deliver tailored, professional, quality tax education and advice to customers with the aim of raising awareness of tax, social policy related matters and improving voluntary compliance. During peak season, such as when required taxpayers are filing annual returns, they provide workshops within communities. In regions where there are significant numbers of overseas seasonal workers entering the country for agricultural work Inland Revenue staff work alongside employers and workers to help them get their tax affairs right. They also target specialised education and support to groups such as tax agents, small businesses, New Zealand's indigenous people (the Māori) and new immigrants.

The different roles within Community Relationships and their associated programmes and services are discussed below. This includes the new role of Community Compliance Officers (CCOs), which is slowly being phased in as Inland Revenue's new front-line role. Inland Revenue has six specialised roles for staff who work in remote locations and support certain customer groups. They mostly work from one of Inland Revenue's eighteen main offices and travel regularly to other areas, often basing themselves in agencies shared with other government departments.

⁷⁷ ANNUAL TELECOMMUNICATIONS MONITORING REPORT 2010, Commerce Commission

Community Compliance Officers

The CCO role comprises three areas: education; relationships and enforcement. Regarding education, CCOs work directly with customers to help them understand their obligations and entitlements, how CCOs can help, and how customers can self-manage. CCOs do this out in the community and through reception and advisory services. CCOs build and manage relationships in the community, including conducting seminars and presentations to community groups, and working with tax agents, other central agencies, Māori organisations, small businesses and other groups. Their enforcement activities include conducting checks, some audit tasks, referred collections contacts and targeting compliance risk activities in the community. Contact may be by phone, in person, or both.

CCOs can identify local needs and provide the services to meet them, so customers are more likely to get it right. This includes spotting potential non-compliance activity early and putting in place remedies to prevent it. CCOs are ideally placed to gather intelligence about service needs or compliance risks and feed this back to the rest of Inland Revenue.

A CCO, observed that “by being more out there in the community, we’re helping to change perceptions that we’re just about tax refunds or investigations, but also letting them know what their entitlements are,” “They understand their obligations, things get done, and they have confidence in IR. It means they comply -ultimately that’s what’s going to happen.” The Team Leader for Community Compliance in a small isolated community says this face-to-face regional approach is a great way to service the spread-out region of New Zealand’s West Coast, which is geographically remote.

Community Relationships Representatives

Taxpayers can contact Community Relationships representatives for free advice and information. Community Relationships representatives talk to and educate communities and community groups about Working for Families Tax Credits (a family financial assistance programme) and child support. They visit schools and tertiary education providers to inform students about Student Loans and provide information about Child Support to custodians and paying parents.

Business Tax Information Officers

Business tax information officers offer free tax education and advice to new businesses, small organisations and sports clubs and other

non-profit bodies. They explain the tax types such entities need to understand, what records need to be kept and how to complete Goods and Services (value added tax) and employer returns, and KiwiSaver obligations. The purpose is to help taxpayers keep better business records, which may reduce the cost of completing year-end accounts and save time by helping them get things right from the start.

Māori Representatives

Māori Representatives offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses, including sports clubs, local meeting places (marae) indigenous language schools, and other non-profit bodies. They visit taxpayers at home or in the workplace and provide one-to-one tax advice and tax training and seminars to Māori groups. They also provide tax agencies at resource centres or marae and supply information booklets on a range of different tax obligations.

Agent Account Managers

Inland Revenue has 45 Agent Account Managers who act as intermediaries between the Inland Revenue and around 5,000 tax agents. The tax agents represent approximately 37% of all customers and 82% of the 500,000 small and medium business customers. The aim of these staff is to increase the level of compliance and compliance behaviours and to market and encourage all self-service options to ensure e-services are utilised. Inland Revenue produces Agents Answers, a monthly electronic newsletter to tax agents on operational and technical issues.

Community Compliance Advisors

The Community Compliance Advisor role is focussed on identifying those persons or organisations operating outside the tax system. Data is collected to identify trends and risk areas that would otherwise go undetected in the normal course of Inland Revenue's business. This can include those persons or organisations completely outside the tax system as well as those persons or organisations registered in our system but suppressing or under reporting income for a variety of reasons.

The role focuses on the Hidden Economy, interpreting industry trends, identifying those businesses outside industry association networks so that the appropriate compliance intervention can be applied. Community Compliance Advisors also implement coordinated

targeted leverage activities and other compliance interventions to target customers working in the Hidden Economy and case-manage customers who declare they are receiving undeclared income by actively engaging with other members of Inland Revenue. (NOTE: The Community Compliance Advisor role will be subsumed into the CCO role as changes to field operations continue over the next few years).

Working with other Government Agencies in Remote Areas

As Inland Revenue only has permanent offices in the larger centres, the Department has explored ways of making our services more available to customers in remote regions. Inland Revenue is working with Work and Income (a government agency that provides financial assistance and employment services) as part of a Government initiative to establish Community Link offices around New Zealand which different government agencies can share.

Inland Revenue also offers a 'Heartlands' programme that provides further access opportunities for remote customers. Since 2008, individuals have also been able to apply for a personal IRD number at any of 400 Automobile Association Centres (AA) and PostShops around New Zealand. These services help people in remote areas due to the significant number and spread of AA Centres and PostShops.

Heartlands

Heartlands improves access to Government services for people in provincial and rural New Zealand. These centres provide a one-stop shop where people living in rural and provincial areas, and three small urban centres, can access a range of government and community services.

The 35 Heartlands Services throughout New Zealand all take slightly different forms depending on the needs of their community. One of the things they have in common is a physical space and a human face. The Heartlands Service Centre is a place where Government services can be delivered whenever a Government Department's representatives are in town. These centres are located in the towns that serve as the administration centres of rural local authorities. In addition, three other isolated towns of significant size also have service centres.

A recent survey carried out in 33 of the Heartlands Service Centres provided a strong endorsement of the work being carried out and highlighted some areas for future development. Sixty seven per cent of respondents strongly agreed that 'Heartlands service made it easier

for me to access the services I need.' Word of mouth was by far the most popular way they found out about the service. The survey did flag physical limitations in some service centres, with lack of privacy highlighted as an issue by both customers and agencies. There was a call for longer opening hours, and limited internet access was also an area where some dissatisfaction was expressed.

An example of how these officers work is illustrated by a joint venture between the Department of Labour and Inland Revenue to conduct field visits to target viticulture contractors, raising the visibility of the NZ Immigration Service, Department of Labour and Inland Revenue and improving compliance. Immigration officers checked for illegal workers, the Department of Labour compliance with employer obligations and Inland Revenue compliance with contractor employer obligations and vineyard owner obligations in respect of tax deductions. This venture created a leverage effect about compliance activity within the viticulture industry.

Community Link

Community Link is a joint initiative between Work and Income (a government agency that provides financial assistance and employment services) and Inland Revenue to roll out Community Link shared offices around New Zealand. As Community Links open in more centres, some Heartlands Service Centres will find themselves working alongside Community Link. Having Inland Revenue on-site to advise on family tax credits and child support helps families struggling through tough times and makes it easier for them to receive the correct entitlements and meet their tax obligations.

Extremely Remote Area -Chatham Islands

The Chatham Islands are an archipelago of ten islands and a New Zealand territory in the Pacific Ocean. These remote islands are over 800 kms east of southern New Zealand. They are home to 609 residents.

An Inland Revenue representative visits the island to assist with tax matters. The visits were three times a year due to high debt levels, but have become annual since these levels have dropped. The officer involved with the visits has noted that it has taken a long time to earn the trust and respect of the taxpayers. With this in mind, it is important that these regular visits are continued and the trust of the local people retained. The Chatham's are a close and private community so the regular presence of Inland Revenue has had a huge impact, not

only for reducing debt but also in terms of their acceptance of Inland Revenue. The Inland Revenue representative keeps in regular contact with the Heartlands office and the local Chatham's Council sends their meeting details and the local community newsletter monthly, so Inland Revenue is aware of what is taking place on the island.

Extremely Remote Area -Overseas Customers

The following two examples show how Inland Revenue is working on reaching overseas customers ('remote' customers):

Student Loans

In New Zealand's fee-paying tertiary system, students are required to meet their tuition costs upfront. They may borrow from the Government to do this by taking out a student loan. Inland Revenue is responsible for the collection of student loans and enforcing repayment obligations. In 2010, 94% of New Zealand based borrowers met their repayment obligations but only 20% of borrowers based overseas did so, mostly due to their remote location and associated communication difficulties, ignorance and/or payment processing issues.

Fifty eight per cent of overdue student loan payments are from borrowers who live overseas. In October 2010, Inland Revenue started a year-long initiative, focussing on the recovery of overdue repayments from 1,000 student loan borrowers whose last known address was in Australia. The initiative used direct campaigns to contact the target group of borrowers about paying their student loans. It also used online advertisements on Facebook, Google and popular New Zealand websites, to increase their level of awareness and encourage repayment. By the end of September 2011, Inland Revenue had received almost \$9 million in payments from just under 3,000 customers. This equates to approximately a ten to one return on the Inland Revenue's dollar investment in the scheme. The vast majority of these payments resulted from the indirect media campaign.

Inland Revenue currently buys advertising space on a number of social media sites and the growth of social media is changing behaviours, perceptions and attitudes. The ease of use and growth of online technologies encourage people to change user behaviour from 'passive to active', 'non-participatory to avid participation' and provide users with a voice that would otherwise not be heard.⁸ Inland Revenue also engaged private sector agencies to help in tracking

⁸ 'Social Media as a Tool for Behavior Change' <http://upleaf.com/2009/07/social-media-as-a-tool-for-behavior-change/>

down and carrying out follow-up collection activity. Inland Revenue has initiated legal proceedings against a selection of customers from the pilot from which the direct contact did not result in a payment agreement being reached. This legal action must start in New Zealand and Inland Revenue is committed to pursuing the legal action through the Australian courts, if necessary. The aim of this legal action is not only to recover the debt but to demonstrate that Inland Revenue will pursue these debts as a disincentive for customers to default on their loan, regardless of their present geographic remoteness to New Zealand.

Many overseas borrowers say it is not easy to make payments while overseas and that this represents the reason for their non-compliance. They view their 'remoteness' as being an issue. Inland Revenue is developing a targeted communications campaign for overseas-based borrowers and is also exploring further the use of Smartphone applications for its tax customers. Since 2007, borrowers have been able to use credit cards online to make repayments. In late 2010, Inland Revenue introduced a third party payment remitter, Orbit Remit, which allows Australian-based borrowers to make regular payments and employer deductions. These initiatives have also been introduced to UK-based borrowers. Online advertisements were recently expanded to reach borrowers worldwide, based on the success of the pilot scheme described above.

Child Support

Since the scheme began Inland Revenue has collected 89.3% of the total of \$5.2 billion child support assessed. Ten per cent of liable parents in debt (for whom Inland Revenue holds valid address details) are living overseas. Eighty per cent of parents living overseas have a debt compared to about 64% of parents living in New Zealand.

Inland Revenue has a reciprocal agreement with Australia that enables the Australian Child Support Agency to collect New Zealand Child Support debt and vice versa. New Zealand is a signatory to the 2007 Hague Convention for the International Recovery of Child Support and Other Forms of Family Maintenance. Therefore opportunities might arise in the future for Inland Revenue to collect Child Support from liable parents overseas with legal backing from the country they are living in. However, this convention is not yet in force and so presently Inland Revenue must rely on the voluntary compliance of liable parents overseas, because it does not have any legal authority to collect debt in other countries.

Increasing volumes of overseas debt make reciprocal agreements integral for collecting child support debt as more and more liable parents are living 'remotely', but implementing the 2007 Hague Convention is a huge undertaking for all signatory countries and is a long process requiring legislative change. New Zealand is presently in the middle of a very significant legislative reform of the child support product and as such is not currently progressing work on the 2007 Convention whilst there is a focus on domestic matters.

Remote in Urban Areas

Remoteness can also be due to difficulties in accessing information and service, either because of insufficient road and telecommunications infrastructure or coverage restrictions. In the modern world where connectivity is key, customers can be 'remote' in an urban environment due to their own personal circumstances or a catastrophic failure in urban infrastructure resulting from a disaster.

Inland Revenue's Response to a Major Earthquake

The February 2011 earthquake to Christchurch was a powerful natural event that severely damaged New Zealand's second-largest city, killing 185 people in one of the nation's deadliest peacetime disasters. The earthquake caused widespread damage across Christchurch, especially in the central city and eastern suburbs, with damage exacerbated by the fact that the buildings and infrastructure had already been weakened by the September 2010 earthquake and its aftershocks. The total cost to insurers of rebuilding has been estimated at NZ\$20–30 billion.

The earthquakes that disrupted Inland Revenue operations in Christchurch had a significant impact on people and affected Inland Revenue's ability to deliver services to our customers. Work was transferred to other sites and to temporary offices that were set up outside the central city, sometimes with other government agencies.

Steps were taken to help customers affected by the earthquakes. Inland Revenue held back letters requesting payment and offered assistance for businesses and individuals who had suffered losses through a helpline and recovery assistance centres. Policy measures were also put in place to recognise and assist affected customers and to encourage people to make donations to the relief effort.

Inland Revenue established a Christchurch Recovery Team (CRT) to manage and coordinate on going Inland Revenue operations, support cross-government functions and prepare for the future delivery of

Inland Revenue services in Christchurch. Recover Canterbury, a government agency, was also set up as a hub to connect businesses to a range of support to help them recover from the earthquake. Inland Revenue and other government agencies and staff from a private sector/business background worked together on business recovery.

Inland Revenue set up social media sites and ran drop-in centres to offer assistance and keep staff connected with their colleagues and other Inland Revenue offices. Many Inland Revenue staff in Christchurch worked with the Ministry of Social Development in Christchurch to implement the earthquake support subsidy to employers and co-locate some face-to-face services. Staff worked on recovery activities and assisted Civil Defence, New Zealand Police, the Earthquake Commission, Canterbury Earthquake Recovery Authority and the Red Cross. Staff also worked closely with private providers, particularly tax agents to re-establish links with customers.

Current State

Inland Revenue in Christchurch has approximately 700 staff and is currently operating from 23 temporary sites due to the earthquake. Some staff are still working from home. The severe damage to all types of infrastructure has resulted in innovative ways being used to work with other government agencies and the private sector to maintain contact with customers who are 'remote' despite living in an urban environment.

Clear benefits of this forced innovation that have been recognised are the improved "customer-centric" delivery of services, the development of government staff through exposure to the needs of business clients and to the work of different government agencies. Working more closely with businesses has helped to ensure compliance by businesses with tax and other legislation, for example Inland Revenue staff being placed at a large tax agent's office.

4 CONCLUSIONS

Overall, this paper has described how Inland Revenue is maintaining and developing its services for customers whilst balancing the need to gain efficiencies and provide better value for money for the country in harder economic times.

Inland Revenue faces a variety of challenges in servicing customers due to New Zealand's geography, infrastructure and population spread, including those customers who are overseas. As discussed, because

of the investment in self-management options that Inland Revenue is continuing to make, the location of the service provider becomes less important. Self-management options also have the potential to free up Inland Revenue resources and therefore provide cost savings. However, as the three extreme examples of 'remoteness' discussed made clear, self-management options may not be utilised because of lack of access, for example broadband, or ignorance of those options, such as the issue of being 'remote' overseas as a reason for non-compliance in making student loan repayments. Inland Revenue has to respond to those 'remoteness' challenges.

Inland Revenue is customer focussed and is two years along the journey of transforming its front-line services to provide better service and value for customers. As part of this redesign, Inland Revenue is using research to tailor strategies to customers, whether it is for specific regional customer needs or the typologies of, and how to influence, various habitual non-compliers such as those participating in the Hidden Economy for example. The new CCO role discussed previously is designed to be at the heart of increasing Inland Revenue's engagement with local communities with a face-to-face presence. They provide advice that is tailored to the local need and build relationships, as well as necessary enforcement activities. The example of the success of the enduring relationship that Inland Revenue has with the remote and isolated community of the Chatham Islands, in providing a tailored service and managing to get debt levels successfully under control, is an indication that this customer focussed approach meets the needs of both customers and Inland Revenue.

The success of the indirect social media campaign targeting overseas customers with student loan debts has shown the powerful nature of tailored advertising to empower those customers who can be influenced to take positive action. Inland Revenue is now expanding that advertising campaign and is considering other initiatives based on the learning's from that pilot.

Inland Revenue is also taking learning's, as well as other government departments, that expand on the success of the more rural Community Link project with the co-location of customer services in Christchurch city because of the earthquakes. The lack of accommodation in Christchurch and the need to service customers, particularly when the customer base overlaps, essentially forced a natural, customer centric overlap that was synergistic and warmly welcomed by customers. This situation essentially provided a pilot scheme and those learning's will be taken forward as it is the Government's goal of providing more integrated services for New Zealanders in the future.

MECHANISMS IMPLEMENTED FOR ASSISTING TAXPAYERS IN REMOTE GEOGRAPHICAL AREAS

Carlos Marx Carrasco
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Summary: *Legal basis. Background. - 1. Approach model for citizen service. - 1.1. Concept. - 1.2. Attention. - 1.3. Control. - 2. Attention mechanisms. - 2.1. Tax management centers (CGT in Spanish). - 2.2. Movable brigades. - 2.3. One-stop windows. - 2.4. Online services. - 2.5. Call centers (CAT) 3. Tax administration strategy. - 3.1. Taxpayer assistance and compliance control of their formal duties.*

Our Premise: **“Serving by controlling and controlling by serving”**

LEGAL BASIS

The 2008 Constitution of the Republic of Ecuador approved with a referendum by the people of Ecuador, states in its Article 300, Fifth Section on the Taxation regime as follows:

“Art 300. - The tax regime is governed by the general, progressivity, efficiency, administrative simplicity, non-retroactivity, equity, transparency and revenue adequacy principles. Priority will be given to direct and progressive taxes.

Tax policy will promote the redistribution and will stimulate employment, the production of goods and services, and the environmental, social and economic responsibility behaviors. “

The Internal Revenue Service, pursuant to the provisions of the Constitution, has established methodologies, mechanisms and tools to ensure the principles of the above mentioned Article.

BACKGROUND



One of the main tasks that every public service should be oriented to is the assistance to citizens, so is the case of the Internal Revenue Service. This is based on the States modernizing process and is focused on quality of service that Tax Administration (TA) is implementing to facilitate compliance with its obligations, management and control as well as the benefits and rights that are stipulated by law to taxpayers and citizens in general.

1. APPROACH MODEL FOR CITIZEN SERVICE

The Departments of Tax Services and the Quality Management Department of the National Directorate of the SRI, since 2010, are compromised in designing, structuring and implementing an Approach Model for Citizen Services, which will enable the Tax Administration to establish mechanisms that ensure an adequate cycle within the citizen services.{{{

The following chart shows the scheme of the Approach Model for Citizen Services:



Graphic 1
Approach Model for Citizen Services
 Source: Tax Services National Department

Brief explanation of the Model:

The Approach Model for citizen services is based on three pillars:

- Processes
- Channels of Assistance
- Tax Culture

Through the channels of assistance, it serves citizens and it is divided in two instances: Pre and Post.

The documentary basis of the model is based on Policies, Procedures, Manuals and Instructions applicable to citizen services. It is necessary to have these documents in order to apply standards that lead to continuous improvement of service in each of the Tax Administration agencies nationwide.

1.1. Concept

It is designed to assist citizens in 2 phases that ensure the receipt and validation of information provided by taxpayers, as well as the compliance of obligations. These phases are the Attention and Control phases.

1.2. Attention

The Attention Phase main objective is to ensure compliance with tax obligations through flyers, training, mobile brigades, etc., encouraging the tax culture in the country. This stage also tries to optimize the assistance, coverage, and attention channels so that taxpayers are well informed about their obligations and rights through the face to face channel, Website and Call Center. This way it tries to reduce the taxpayers' indirect costs ensuring attention coverage with timely and accurate information from the taxpayer.

In order to ensure coverage and facilitate the taxpayer's obligations compliance, the Tax Administration uses the following attention mechanisms:

- Tax Management Centers (CGT).
- Mobile Brigades.
- One-stop window
- Online Services
- Call Center (CAT).

1.3. Control

The main objective in the Control phase as well as in the Attention phase is to ensure compliance with tax obligations through persuasive notifications, preventive measures, sanctions, etc. This way tax gaps are reduced and information in the taxpayers' registry is purged. In the control stage the verification and management of information provided by taxpayers are performed, if necessary corrected, and the differences are issued.

At this stage the Tax Administration uses the following mechanisms to ensure control:

- Tax Management Centers
- Mobile Brigades
- Deterrence and Persuasion Programs
- Intensive and Extensive Controls

2. ATTENTION MECHANISMS

2.1. Tax management centers (CGT in Spanish)

The Centers are set for the main offices headquarters of the regional and provincial directorates. Furthermore, their presence has been considered for the main counties of the country, with permanent attention. The SRI currently has 46 offices nationwide, the minimum staff required to implement an agency is:

Number of staff	Charge	Furniture	Machinery and equipment
3	Front desk Assistant	3	3
1	Agency Head	1	1
1	Notifier	1	1

In order to implement a CGT, it should be considered to have premises owned or leased, as well as systems, links and software packages that allow communication of the agency with the institutions' computer servers.

2.1.1. Services provided in the CGT

Through the face to face channel, the following processes are performed:

- Assistance and registration of information: This process registers taxpayers, issues certificates requested by other institutions, authorizes the issuance of sales vouchers, and provides general information.
- Facilitate compliance: This process assists taxpayers to meet their obligations through the options for online returns, issuance of passwords, among others.
- Benefits and Rights: In this process the assistance goes to the taxpayers' benefits entitled by law such as rebates and exemptions, tax returns, payment facilities.

These processes are 100% implemented by the Tax Administration.

2.1.2. Criteria for the implementation of a CGT

The analysis of criteria for the location or opening of a Tax Management Center is produced as part of a technical evaluation that considers a multivariable analysis. The most representative variables are:

- **Economically Active Population - PEA (area)**

It refers to the population that generates wealth either as employees (public or private) or independents, maintaining a close relationship with all sectors of the economic development.

This group must declare the income generated by their economic activities within the country.

- **Registration gap (relationship between active registered taxpayers and the PEA and the population with dependency relationship)**

The creation of a CGT represents a fiscal presence and control actions that can be generated. The local presence of the TA allows the possibility to increase the perception of risk in case of noncompliance of the inhabitants.

The existence of significant evasion gaps (in absolute value) in a county or a set of parishes within a county is a relevant factor for the decision to create a CGT in a particular locality. However, estimating the size of the gaps, the decision must be made objectively and will include programming targeted control actions in the sector.

- **Unsatisfied demand (taxpayers registered by their tax domicile)**

Assessing the unsatisfied demand requires to separate those counties which have a CGT of the SRI from those which do not have one.

As for the counties that “Do not have a CGT of the SRI”, unsatisfied demand will be the greater value between: the number of active registered taxpayers or PEA counties multiplied by the national ratio of active registered/ PEA in counties where CGT exists.

As for the counties that have CGT of the SRI the unsatisfied demand will be assessed through two components:

- By the number of taxpayers who took a turn through the Q-Matic and were not assisted and,
- Results of surveys to determine the composition of the current attention by the taxpayers domicile sector.

- **Amounts of revenue by geographic location (area)**

While the decision to establish a CGT does not have the direct purpose to increase tax collection, the level of economic activity is an appropriate mechanism for deciding to implement it, among several options.

The growth of commercial activities may require improving tax services in the locality.

Therefore the amount collected in a county corresponds to the location over the past two fiscal periods. This analysis should be detailed and broken down by the type of VAT, ICE, Global Income, penalties, interest and others.

- **Distance and traveling time (to the nearest CGT or agency)**

The distance between the taxpayer domicile and the nearest CGT, affects the indirect tax burden, considering that the purpose of creating a CGT is to facilitate and reduce the cost of compliance with tax obligations.

It is established that a distance that requires evaluation to create a CGT, in a county in which there is no CGT, is based on the time it takes for a citizen to reach by land (or river if applicable) the nearest CGT or agency, if it is more than two hours.

- **Authorized Printing Centers by the SRI to print invoices (availability by area)**

The physical presence of at least one authorized printing center will facilitate the processing of vouchers which are legally required to develop any economic activity. While this information should be evaluated prior to the decision, it is not exclusive, it involves, if applicable, the identification of possible new authorizations for authorized printing centers for printing sales vouchers.

2.2. Mobile brigades

Tax services will be provided for one day a week or periodically as defined by the assistance and control plan, based on the analysis of demand for services that include, among others, the following:

- Reduction of indirect costs to the taxpayer
- Distance from the nearest agency to the town in which the brigade will be performing.
- The Administration presence to encourage voluntary compliance with their obligations

Each mobile brigade runs for 1 year as a pilot project, during this time, the impact assessment is carried out in order to analyze the need to create a one stop window or maintain the provision of services through the mobile brigade.

In 2011, at the national level, a total of 709 mobile brigades were created according to the following detail:

Regional	Brigades
Austro	124
Centre 1	47
Center 2	83
North	274
South Coast	71
South	33
Gold	36
Manabi	41
Total Brigades:	709

The minimum personnel required to perform a mobile brigade:

Number of staff	Charge	Machinery and equipment
2 - 3	One-stop window Assistant	2 - 3

2.3. One-stop windows

Usually they are established in response to inter-institutional agreements in which companies request the presence of the tax Administration, depending on the demand for assistance within the population. Inter-institutional agreements often include the provision of a physical space in the applicant entity.

The SRI currently has 12 one-stop windows nationally according to the following detail:

Regional	One-stop windows
Austro	1
North	7
South Coast	1
South	1
Manabi	2
Total one-stop windows:	12

The minimum staff required to implement a one-stop window is as follows:

Number of staff	Position	Furniture	Machinery and equipment
1 - 2	One-stop window Assistant	1 - 2	1 - 2

2.4. Online services

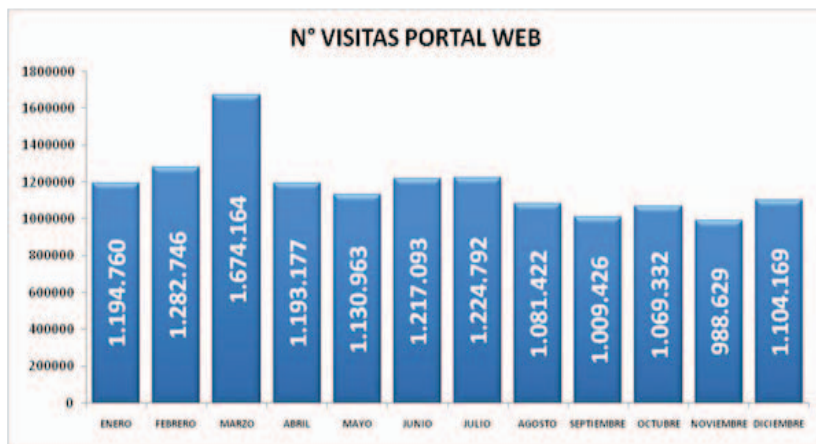
This is the virtual assistance channel through which services are provided to taxpayers to facilitate compliance with their obligations. Currently the following services are provided: sale vouchers process, Electronic sales vouchers, returns and Annexes, and tax refunds. The implementation of these processes now reaches 50%.

The Tax Administration has worked hard to date to have 89% of taxpayers filing their tax returns online, and from May of this year, it will be mandatory for all taxpayers to submit their returns online.

Taxpayers can pay their taxes by any of the following ways listed below:

- Cash
- Credit Cards
- Bank Debit

In 2011, there were 14,170.673 visits to the Website, of which 8,443 .389 were from taxpayers who submitted their returns via Internet. The monthly visits are detailed below:



4.5. Call centers (CAT)

This is the telephone support channel by which a recorder or an operator informs the taxpayer about the menu options that can be accessed directly from the phone by pressing the corresponding digit.

The taxpayer who accesses the assistance of an operator will be assisted on any of the following issues:

- Tax legislation in force.
- Information on Tax Administration procedures.
- Online services management.
- Technical support 24 * 7 (from 2012)

In 2011, 746,273 calls were received nationally in the CAT. The monthly statistics are detailed below:

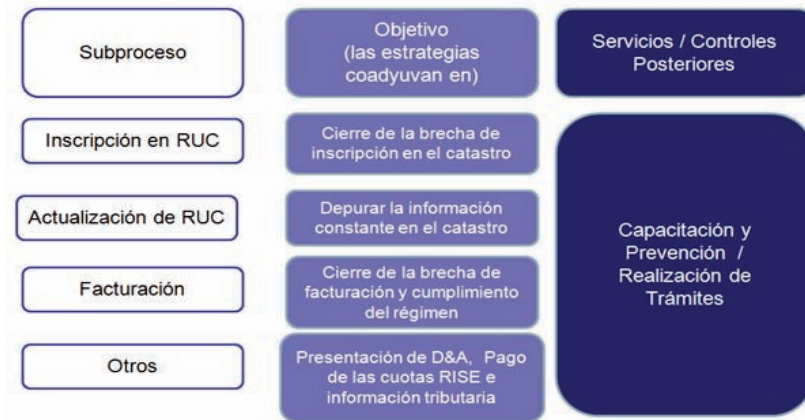


5. TAX ADMINISTRATION STRATEGY

The strategy of the Ecuadorian Tax Administration is to make available to taxpayers as many online services as possible, covering even remote geographical locations that have Internet access. However, the most important limitation was that this nationwide service only reached 31% (INEC) and the lack of knowledge of the citizenship in the use of computer tools. Achieving higher levels of simplification of online procedures is a challenge for the SRI.

3.1. Taxpayer assistance and compliance control of their formal duties

The Control phase seeks to perform several actions to close gaps in the assistance service, improving indicators and increasing collection by the Tax Administration. The sub-processes, objectives and controls that are performed in this phase are detailed below:



During the year 2011 there were 9,279 visits to retail outlets nationally in which the above mentioned controls were carried out.

3.1.1. Information prevention program

Through this program the massive dissemination of the taxpayers' rights, duties and obligations is carried out, by using information lectures, media information, distribution of informative materials and other.

3.1.2. Deterrent program

Through this program the verification and registration of compliance and noncompliance with tax obligations is performed in a direct and personal way, as well as warning of responsibilities on detected noncompliance which were not immediately corrected, in addition to the signature of the registration control.

STRATEGIES AIMED AT IMPROVING THE QUALITY OF THE SERVICE

Douglas O'donnell
Assistant Deputy Commissioner
Internal Revenue Service
(United States of America)

Summary: 1. Historical perspective. - 2. The tipping point. - 3. A customer-focused IRS. - 4. Conclusions.

It's not enough to announce a new focus on customer needs without actually involving them in identifying their needs and measuring their satisfaction with how well the organization met their needs. This is a significant undertaking. The IRS, the National Taxpayer Advocate and the IRS Oversight Committee conducted numerous focus groups and surveys to identify the needs of various taxpayer groups and to assess their satisfaction with the IRS' performance. They continue to do so today.

The GPRA's focus on measures dealing with dollars collected and assessed led to an unbalanced situation that favored these activities over activities aimed at customer service. In the 1990's, the Balanced Scorecard gained favor in the private sector and among other government agencies. When mandated to use a balanced measures system, the model chosen by the IRS was Business Results, Employee Satisfaction and Customer Satisfaction. The concept was that if an organization's employees are satisfied they are likely to treat the customers better. This leads to customer satisfaction and a greater willingness to work with the organization thus improving the bottom line. The GPRA measures were proof of the idea developing at the time that an organization gets what it measures, especially if it rewards or punishes based on how well different parts of the organization met the measures.

Finally, it is important to align the performance management system top to bottom with the organizational goals and the balanced measures of performance. The likelihood of employee engagement increases when they can see how their work contributes to the work of the larger

organization. In times of scarce resources, a top to bottom focus on key goals and measures reduces the likelihood of wasted resources.

The IRS' story of developing strategies aimed at improving the quality of service covers 2.5 decades and the story isn't finished yet. Many forces such as globalization and changing tax laws require continuous reassessment of customer needs, organizational goals and design of effective, balanced measures that will encourage meeting both customer needs and organizational goals.

INTRODUCTION: Scope/Content

The Discussion of this paper has three parts:

Historical Perspective – various quality of service and customer satisfaction initiatives beginning in the mid 1980's through 1997;

- The Tipping Point – the events that led up to the creation of a Congressional Commission and hearings resulting in legislation mandating new customer satisfaction approaches for the IRS;
- A Customer-Focused IRS: Yesterday and Today -- institutionalization of quality service through a system of balanced measures and programs aimed at meeting customer needs

Discussion

1. HISTORICAL PERSPECTIVE: IRS and Government-wide Quality Initiatives – late 1980's to late 1990's.

Implementation of Total Quality Management (TQM) in the IRS --1986

During the 1985 filing season, disaster struck at the IRS! The IRS had just begun implementing a complete computer conversion at ten Service Centers and, instead of improving processing and productivity, the Centers actually began falling behind. There were stories in the press about incorrect notices and tax returns that had been lost, misplaced or even destroyed – everything from improper shredding to stuffing returns in the ceilings and into trash bins in a restroom. When taxpayers called because of a late refund, instead of trying to find the return the taxpayer had already filed, the IRS asked the taxpayers to file their tax returns again. Obviously, this approach was not an example of a strategy aimed at improving the quality of service.

Around the same time, United States (US) companies had begun to embrace TQM, a management approach which originated in Japan

in the 1950's and gained popularity in the US during the 1970's and 1980's. Central to TQM is a process-oriented and customer-centric approach with a goal of giving customers products and services that satisfy their needs. Edwards W. Deming and Joseph M. Juran were two widely known consultants for TQM.

It was no surprise that the Federal government also became interested in quality initiatives. In February 1986, President Reagan issued a presidential executive order to establish a government-wide effort to improve the productivity, quality, and timeliness of government products and services. The IRS, along with other federal agencies, looked to TQM. The Federal Quality Institute, created in 1988, defined the three basic principles of TQM for federal agencies as:

- Customer satisfaction;
- Continuous and long-term improvement;
- Full involvement of the entire workforce in improving quality.

The IRS began a formal quality improvement process in 1986 when it hired the Juran Institute to conduct training for executives, along with site visits to companies already using TQM for a number of managers. In 1986, the IRS Commissioner also created the Commissioner's Quality Council. In 1987, National Treasury Employees Union (NTEU) representatives joined the Council and it was renamed the Joint National Quality Council with activities at the national and local levels. There was also an Assistant to the Commissioner (Quality).

1987-1988 also saw the creation of the Joint Quality Improvement Process (JQIP) in partnership with the NTEU at the national and local levels. The JQIP focused on solving systemic problems through the efforts of quality improvement teams. The JQIP efforts taught the IRS about the importance of:

- Customers and meeting their needs;
- Measurement;
- Systems and how they work.

It soon became clear that the JQIP process, by itself, was not sufficient. This led to the creation of a Strategic Business Plan goal of becoming a Total Quality Organization (TQO).¹

In 1989, the Federal Quality Institute, the Federal government's lead agency in promoting TQM established the Presidential Award for

¹ *The Internal Revenue Service Plan for Improving Customer Satisfaction and Organizational Performance.* Washington DC: Internal Revenue Service (August 1992), p. 2.

Quality, comparable to the Malcolm Baldrige National Quality Award in the private sector. As part of becoming a TQO, the IRS embraced benchmarking and sharing best practices. This included training a cadre of IRS employees on how to use and apply criteria from the President's Quality Award Program in order to assess how programs, functions and organizations performed against the quality, Baldrige-type criteria. In 1992, at the fifth annual National Conference of the Federal Quality Institute, President Bush announced that the IRS' Ogden Service Center was to be the first civilian organization honored since the establishment of the award in 1989.

Even though the IRS disbanded its Quality Office in the late 1990's, Large and Mid-size Business, now known as Large Business and International (LB&I) continued on with its own quality efforts. Part of the process is to apply the Baldrige Award criteria through the annual LB&I Organizational Health Assessment conducted by managers and employees. In 2005, LB&I received a Certificate for Commitment to Performance Excellence from the U.S. Senate Productivity and Quality Award Program for Virginia.

The award was in recognition of the progress made in implementing sound approaches to tax administration and delivering strong results to the American people. In 2006, the same organization awarded LB&I with a Medallion for Performance Excellence.

Commitment to Quality (CQS) Strategic Initiatives/Summary Report
-- 1990

In 1987, five "Commitment to Quality" (CQS) teams began to develop recommendations for implementing quality processes in the Service. The topics for the five teams were:

- Ensure that functional goals and program effectiveness measures reflect commitment to quality service;
- Develop a greater concern for the customer;
- Identify and remove barriers to quality and foster a climate of innovativeness and creativity;
- Instill a commitment to quality;
- Adopt management information systems to track progress on meeting the commitment to quality service.

By May 1990, the CQS teams completed their work and the IRS Executive Committee approved all five reports from each of the teams named above and a Summary Report.

The Committee established an implementation strategy which included

permission to proceed with implementing six of the recommendations immediately:

- Implement quality planning;
- Develop long and short range plans and goals for quality;
- Make customer service accomplishments key in picking managers;
- Establish quality effectiveness measures;
- Implement quality control systems;
- Work with the Joint National Quality Council to set goals for Quality Improvement²

At the same time, the Assistant to the Commissioner (Quality) began work on a strategic plan to implement most of the remaining recommendations. He chartered a planning group to incorporate these and other recommendations into a long-range plan for quality as part of the IRS Strategic Business Plan.

The Internal Revenue Service Plan for Improving Customer Satisfaction and Organizational Performance – 1992

In the early 1990's, the IRS' Strategic Plan had three objectives:

- Increasing voluntary compliance;
- Reducing taxpayer burden; and
- Improving customer satisfaction and quality-driven productivity.

The Internal Revenue Service Plan for Improving Customer Satisfaction and Organizational Performance focused on the third strategic objective.

National Partnership for Reinventing Government (NPRG) -- originally known as National Performance Review (NPR) – 1993 to 1997

Shortly after taking office in 1993, President Clinton created the National Performance Review with Vice-President Gore as its leader. David Osborne, author of *Reinventing Government*, served as an advisor. The initial task force included over 250 government and non-government individuals. Their mission was to create a government that “works better, costs less and gets results Americans care about”

They would do this by:

- Putting customers first;
- Empowering employees to put customers first;

² *Commitment to Quality Service Strategic Initiatives. Washington DC: Internal Revenue Service (May 1990) p. 2.*

- Cutting red tape that held back employees;
- Getting back to basics.

Later that year, the task force listed 1250 specific actions intended to save money, reduce “overhead” positions and improve government operations.

The President issued directives aimed at implementation of some of the recommendations. In September 1993, he issued an executive order requiring agencies “...that provide significant services directly to the public...” to set customer service standards.³ naturally, this included the IRS. In 1993, the first year, only the IRS, the Social Security Administration and the United States Postal Service committed to creating customer service standards.

During the second term of the Clinton Administration, which began in 1997, NPR decided on a strategy shift similar to the IRS’ shift from the small group JQIP process to creating a detailed strategic plan. NPR turned from hundreds of small, frontline teams to transforming entire federal agencies. It identified 32 agencies with the most direct impact on the public.⁴ The IRS, of course, was one of the selected agencies. In May 1997, Vice President Gore and Treasury Secretary Rubin established a NPR study, the IRS Customer Service Task Force, to find ways to improve customer service at the IRS.

In its report, *Reinventing Service at the IRS*, the Task Force identified more than 200 actions to bring about a “...customer service revolution...” at the IRS.⁵

2. THE TIPPING POINT: Congressional Scrutiny, the White House Plan and the Internal Revenue Restructuring and Reform Act of 1998 (RRA 98)

Meanwhile, in spite of a significant focus on quality customer service and customer satisfaction, the IRS continued to have problems modernizing its outdated computer processing system. Additionally, the Treasury Department and the White House had been pressuring the IRS to increase enforcement revenue to reduce the federal

³ Clinton, William J. *Executive Order 12862: Setting Customer Service Standards*. Washington DC: The White House (September 1993).

⁴ Kamensky, John. *A Brief History of the National Partnership for Reinventing Government (formerly the National Performance Review)*. Archived “Who We Are” web page from the NPRG found at <http://govinfo.library.unt.edu/npr/whoweare/history2.html>, (January 1999).

⁵ Gore, Al, Rubin, Robert E., et al. *Publication 2197 Reinventing Service at the IRS*. Washington DC: Department of the Treasury (March 1998), p.57-90.

government deficit.⁶ One result of this was evaluating IRS offices and sometimes individuals against goals based on dollars assessed or collected. This, of course, led to growing dissatisfaction with certain aspects of interacting with the IRS.

Politics, an ever-present force in Washington, DC, also played a role as pollsters encouraged their political clients to publicize and take advantage of the problems at the IRS to win points with their constituents.

National Commission on Restructuring the Internal Revenue Service

In 1996, Senator Bob Kerry of Nebraska pushed the enactment of legislation to create the National Commission on Restructuring the Internal Revenue Service to study what should be done with the IRS. He and Representative Rob Portman of Ohio co-chaired the Commission. Initially, the Commission focused on the IRS' unsuccessful technology modernization efforts. Gradually, their attention shifted towards weaknesses in managing the IRS as a whole.⁷

By June 1997, the Commission produced a report, *A Vision for a New IRS*. This report covered a number of areas including Section 3.1 Improving Customer Service. This section had recommendations involving notices, communicating electronically and through telephones, using information strategically, training and education as well as public-private partnership.⁸

The Senate Finance Committee (SFC) Hearings

In September 1997, the SFC held three days of hearings on how the IRS treated taxpayers. Testimony came from individual taxpayers and even from some employees of the IRS. Placing the witnesses behind screens and using black hoods to cover the faces of all but one IRS employee only added to the drama. Acting IRS Commissioner Michael Dolan attended the hearings. During his testimony, he apologized for mistakes made and for the treatment received by some taxpayers. He also made a point about the importance of and expectation for enforcement balanced against service:

⁶ Rossotti, Charles O. *Many Unhappy Returns*. Boston: Harvard Business School Publishing (2005), p. 14.

⁷ *Ibid.*, p. 18, 19.

⁸ Kerry, Bob and Portman, Rob. *Report of the National Commission on Restructuring the Internal Revenue Service: A Vision for a New IRS*. Washington, DC (June 25, 1997), pp. 24-26.

I believe that what you do is invest in the front-end kinds of service, the taxpayer friendly aspects that you talked about, with an objective in mind. The objective is having a system where people are able to be, encouraged to be, as compliant as possible. At some point in time though, if I am here and I am compliant, I think that person expects the Internal Revenue Service to deal with somebody who is not pulling their load.⁹

The White House Comprehensive IRS Reform Plan

In early October 1997, after the SFC hearings were over, the White House web site published the announcement of a comprehensive IRS reform plan based on recommendations made by Gore, Rubin and the NPR IRS Customer Service Task Force. The White House web site shows four large components to the plan:

- Reinvention: Improving Customer Service;
- Rights: Expanding Taxpayer Rights and Remedies;
- Recourse: Giving New Ways to Solve Problems;
- Strengthen IRS Oversight.

Some specific proposed actions included ending the use of dollar goals to evaluate the IRS' performance, increasing phone coverage and office hours, expanding the role of the Taxpayer Advocate and creating various kinds of citizens' panels and boards.¹⁰

Internal Revenue Restructuring and Reform Act of 1998 (RRA 98)

RRA 98, also known as the Taxpayer Bill of Rights III, was enacted in July 1998 and resulted from the hearings and commissions held by the United States Congress in 1996 and 1997. In addition to many amendments to the Internal Revenue Code, this law also required changes to the IRS organizational structure and mission statement, established an IRS Oversight Board and expanded the role and powers of the Taxpayer Advocate.

The bill directed the elimination of the old organizational structure which had been based on geography. That structure had Regional Commissioners and District Directors who oversaw all of the IRS' operations for all taxpayers in a particular area of the country. The new structure was to have operating units serving particular groups of taxpayers with similar needs for all of their transactions with the IRS.

⁹ *Committee on Finance United States Senate. Practices and Procedures of the Internal Revenue Service. Washington DC: US Government Printing Office (1997), p. 210.*

¹⁰ *The White House Web Site. Comprehensive IRS Reform Plan, October 10, 1997.*

These operating units turned out to be Wage and Investment, Small Business-Self Employed, Tax Exempt and Government Entities and what is now known as Large Business and International.

The legislation also required creation of a new mission statement and specified that it was to provide greater emphasis on serving the public and meeting the needs of taxpayers.

The stage was set at the IRS for major changes focused on improving quality of service. There was no shortage of recommendations from:

- Congress' National Commission on Restructuring the Internal Revenue Service;
- NPR's IRS Customer Service Task Force and the related White House IRS Comprehensive Reform Plan;
- Some provisions of the RRA 98 and
- Statements made to the Senate Finance Committee by Acting Commissioner Michael Dolan and newly appointed Commissioner Charles O. Rossotti.

3. A CUSTOMER-FOCUSED IRS: Yesterday and Today – Strategies for Quality of Service

There were several common themes in the recommendations dealing specifically with quality of service:

- **Customer-Facing Initiatives**
 - provide better face-to-face and telephone service
 - create a problem solving system that works
- **Organizational Structure**
 - revise the mission statement to emphasize service
 - change the structure of the IRS from one organized around internal functions and geography to one organized around specific groups of taxpayers
- **Customer Satisfaction: Identifying Needs and Measuring Satisfaction**
 - survey customers to find out what they need/quality of service
 - implement a balanced measures system

Between the time of the SFC hearings and the start of the 1998 filing season, Charles O. Rossotti had been named and approved as the new Commissioner of the IRS.

Unlike most previous Commissioners, his background was in business and technology, not accounting or law. He was the first IRS Commissioner appointed to a 5 year term.

As he set about the task of modernizing the IRS, he and teams of people helping him identified five Guiding Principles:

- Understand and solve problems from the taxpayer's point of view;
- Enable managers to be accountable – knowledge, responsibility, authority, action;
- Align measures of performance at all organizational levels;
- Foster open, honest communication;
- Insist on total integrity.

Early on, the teams also identified Five Levers of Change:

- Revamped business practices;
- Customer-focused operating divisions;
- Management roles with clear responsibility;
- Balanced measurement of performance; and
- New technology.

Many of the Guiding Principles and Five Levers of Change were at the base of strategies to improve the quality of service to taxpayers.

Customer-Facing Initiatives: Better Face-to-Face and Telephone Service

While very few taxpayers ever heard of the Guiding Principles or the Five Levers of Change, almost all of them knew people who had tried to get help by calling the IRS or by visiting one of the many taxpayer walk-in centers. So it was natural to initially emphasize improving and increasing the IRS' availability for helping individual taxpayers.

The NPR IRS Customer Service Task Force had recommended, "Beginning in 1998 the IRS will open district offices on Saturdays during the busiest weekends of the filing season." The Task Force also recommended significant increases in telephone service at the IRS Call Centers.¹¹

Table 1. IRS Telephone Service Goals	
Year	Service Goal
1997	12 hours a day / 5 days a week
1998	16 hours a day / 6 days a week
1999	24 hours a day / 7 days a week

¹¹ Gore, Al, Rubin, Robert E., et al. *Op. cit.*, pp. 25, 30.

At the end of January 1998, Commissioner Rossotti appeared before the SFC to tell them about actions the IRS had already taken to improve quality of service. He announced that the IRS had expanded telephone service by over one third – from 5 days a week for 12 hours a day to 6 days a week for 16 hours a day.¹²

In April 1999, Commissioner Rossotti appeared before the House Ways and Means Committee to report that the IRS had achieved its 1999 goal of providing telephone assistance 24 hours a day for 7 days a week. He also announced the IRS had begun measuring the percentage of calls in which the taxpayer received actual service in relation to the percentage of time the taxpayer simply gained access to the system. In terms of call quality, the IRS had also begun rating the quality of a sample of actual taxpayer calls and rating those who received complete and accurate service, as well as technical tax law or account accuracy. He also reported the IRS had provided Saturday walk-in service during the 1999 filing season on 13 Saturdays at nearly 262 locations nationwide, compared to six Saturdays in 178 locations in Fiscal Year 1998. The Saturday Service sites were selected based on their weekend accessibility, year-round operational status and high traffic volume. They included 32 non-traditional locations such as shopping malls, community centers and post offices.¹³

By December 2005, the IRS' statistics showed that 93% of calls came in between 8am and 8pm, Monday through Friday. Meanwhile, there had been a reduction in the IRS customer service budget. Commissioner Mark Everson announced that for the 2006 filing season, call sites would be open from 8am to 8pm local time – a reduction back to 1997 levels.¹⁴ This decision was accompanied by a revamping of www.irs.gov that allowed taxpayers to find even more help 24 hours a day, 7 days a week. The newly redesigned www.irs.gov provided a more usable look and feel with improved overall site navigation and an enhanced the search engine to increase search result accuracy and usability.

Technology is playing a more and more important role in all of our lives and the IRS has been finding new ways to leverage technology as a way of interacting with individual taxpayers. In January 2011, The IRS unveiled IRS2Go, its first smart phone application that lets

¹² Rossotti, Charles O. *Statement of Charles O. Rossotti, Commissioner of Internal Revenue, Before the Senate Finance Committee. Washington DC (January 28, 1998).*

¹³ Rossotti, Charles O. *Testimony Before the Subcommittee on Oversight, of the House Committee on Ways and Means. Washington DC (April 13, 1999).*

¹⁴ Associated Press. *IRS to Reduce Telephone Hours Help. The Augusta Chronicle (December 17, 2005).*

taxpayers check on the status of their tax refund and obtain helpful tax information. “This new smart phone app reflects our commitment to modernizing the agency and engaging taxpayers where they want, when they want it,” said IRS Commissioner Doug Shulman. “As technology evolves and younger taxpayers get their information in new ways, we will keep innovating to make it easy for all taxpayers to access helpful information.”¹⁵ The IRS also continued to enhance the material available on www.irs.gov.

The big innovation for 2012 was the launch of a pilot Virtual Service program at ten IRS offices and two other sites where taxpayers received assistance through two-way video conferencing. For the 2012 filing season, the IRS also continued to offer the more traditional forms of taxpayer assistance: telephone assistance 12 hours a day for 5 days a week local time; walk-in services generally available at larger offices from 8:30am to 4:30pm Monday through Friday; and for more limited hours in small offices. Through partnerships with the American Association of Retired Persons’ Tax Counseling for the Elderly and other community groups supporting the IRS’ Volunteer Income Tax Assistance (VITA) program, free tax preparation services are available for those with household incomes of \$50,000 and below. Many of these volunteers offer their services on evenings and weekends.

Summing up the most visible kinds of customer-facing quality service, IRS Commissioner Doug Shulman said, “At the IRS, we’re working hard to make the process of filing your taxes as quick and easy as possible. Providing quality service is one of our top priorities. It not only reduces the burden on taxpayers, but also helps in filing an accurate return right from the start.”¹⁶

Customer-Facing Initiatives: A Problem Solving System That Works

National Taxpayer Advocate In 1979, the IRS created the Office of the Taxpayer Ombudsman to serve as the primary advocate for taxpayers within the IRS. This position became codified as part of the original Taxpayer Bill of Rights (TBOR 1) in 1988 and gave the Ombudsman the statutory authority to issue a Taxpayer Assistance Order (TAO) for a taxpayer who was suffering, or was about to suffer, a significant hardship as a result of the manner in which the Internal Revenue laws were being administered. In 1996, Taxpayer Bill of Rights 2 (TBOR 2) replaced the Office of the Taxpayer Ombudsman with the Office

¹⁵ *IR-2011-8, IRS Launches the IRS2Go App for iPhone, Android; Taxpayers Can Check Refunds, Get Tax Information.* Washington DC: Internal Revenue Service (January 24, 2011).

¹⁶ *IR-2102-1, IRS Kicks Off 2012 Tax Season with Deadline Extended to April 17.* Washington DC (January 4, 2012).

of the Taxpayer Advocate. This elevated the position of the Taxpayer Advocate and described its functions:

- To assist taxpayers in resolving problems with the Internal Revenue Service;
- To identify areas in which taxpayers have problems in dealings with the Internal Revenue Service;
- To the extent possible, propose changes in the administrative practices of the Internal Revenue Service to mitigate those identified problems; and
- To identify potential legislative changes which may mitigate such problems.

In 1997, the National Commission on Restructuring the Internal Revenue Service called the Taxpayer Advocate the “voice of the taxpayer” and noted how important it was for this office to be an independent voice.¹⁷ To give structure to this independence, the IRS RRA 98 – sometimes referred to as TBOR 3 -- renamed the Taxpayer Advocate as the National Taxpayer Advocate and mandated that the National Taxpayer Advocate could not be an officer or an employee of the IRS for two years preceding or five years following his or her tenure as the National Taxpayer Advocate. Today this office continues as the voice of the taxpayer and independent reporter of perceived issues to the US Congress.

IRS Problem Solving Days Immediately following the 1997 hearings, Deputy Commissioner Mike Dolan announced that each IRS district would begin holding monthly Problem Solving Days. The goal was to provide taxpayers an opportunity to meet with Service personnel to resolve special tax problems they were encountering.

On Saturday, November 15, 1997, the IRS held its first Problem Solving Day and continued to hold more throughout the country. The customer satisfaction survey distributed at the November event showed taxpayers were extraordinarily pleased with the quality of service they received with an average rating of 6.46 on a 7 point scale. As early as 1999, local IRS offices began to partner with the tax departments of the state in which they were located.¹⁸

These events continue today even in our overseas offices. During the 2010 filing season, our Paris office partnered with an external stakeholder to hold a Taxpayer Assistance Day. The IRS Tax Attaché summed it up, “It was a very successful event as we had a lot of people

¹⁷ *Kerry, Bob and Portman, Rob, Op. cit., p. 48.*

¹⁸ *Rossotti, Charles O. Statement of Charles O. Rossotti, Commissioner of Internal Revenue, Before the Senate Finance Committee. Washington DC (January 28, 1998).*

who showed up for individual consultations.”

Organizational Structure: A Mission Statement Emphasizing Service

Under the Mission Statement used during the 1990’s, it is easy to see how some managers slipped into using dollar goals as measures of individual and organizational performance. The IRS RRA 98 specifically called for revising the mission statement to provide greater emphasis on serving the public and meeting the needs of taxpayers.

During the IRS modernization process, external consultants assisted with a revision to the IRS Mission Statement. The process of creating the new mission statement included the solicitation of input directly from employees. The language change is striking.

Table 2. Comparison of Old and New IRS Mission Statements	
Old Mission Statement	New Mission Statement
The Mission of the Internal Revenue Service is to collect the proper amount or tax at the least cost to the public. We accomplish this mission by providing information to taxpayers, educating and assisting taxpayers, maintaining taxpayer accounts and ensuring compliance	The IRS Mission: Provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Instead of starting with a practical statement about the efficient collection of tax, the new Mission Statement starts out with an emphasis on providing top quality service to taxpayers by helping them.

Around the same time, the IRS aligned its goals with the new Mission Statement:

- Service to each taxpayer (in every transaction);
- Service to all taxpayers (through fair and uniform application of the law);
- Productivity through a quality work environment.

Organizational Structure: Organized around Specific Groups of Taxpayers

The IRS RRA 1998 also directed the Commissioner to restructure the IRS into operating units serving particular groups of taxpayers with similar needs. Too often, organizations try to bring about change

within organizational structures that inhibit – and even work against – the desired changes. During the 1990’s, the IRS was organized around internal functional processes, e.g., taxpayer service, collection, examination, and returns processing, with each function responsible for all taxpayers needing to interact with that function. The result was many taxpayers found themselves dealing with different parts of the IRS at the same time.

The modernization teams originally identified four large taxpayer groups with similar needs.

Table 3. Original IRS Operating Divisions Organized around Taxpayers	
Wage and Investment (W&I)	Individuals with income solely from wages and investments
Small Business/Self Employed (SBSE)	Businesses with assets of less than \$5 million to include estates, rental properties, corporations, trusts, partnerships, sole proprietorships, etc. and foreign residents
Tax Exempt and Government Entities (TEGE)	Charitable and other kinds of organizations exempt from federal income tax, pension plans, state and local governments and Native American tribes
Large and Mid-Sized Business (LMSB)	Businesses with assets of \$5 million or more

The Commissioners over each of these operating Divisions were originally charged with end to end responsibility for anything affecting members of their taxpayer groups. Over the last 11 years, there have been changes to make the new structure work better in a constantly changing environment. Some examples are:

- Changing the name of LMSB to Large Business and International (LB&I) to communicate the consolidation of most International activities and taxpayers (including individuals) under the Deputy Commissioner International (LB&I) as a response to the challenges of globalization;
- Changing the cut-off for SBSE vs. LB&I from \$5 million to \$10 million;
- Consolidating returns processing work within W&I in response to decreased volumes of paper returns as a result of increased electronic filing.

Customer Satisfaction: Surveys to Determine Needs and Quality

A key to being a customer-focused organization is to find out what the customers value and need. In 1997, the National Commission on Restructuring the Internal Revenue Service charged the Public Strategies Group with developing a consensus among IRS stakeholders on a small number of customer service measures. There was general consensus on a few key descriptors of customer service quality: fairness, respect, ease, understandability, accuracy, timeliness and access. They also agreed upon specific indicators of customer service performance:

- Number of taxpayers contacting the IRS who receive resolution at their first inquiry;
- Understandability of all information, including notices, instructions, and audit procedures;
- Customer perceptions of respectful treatment;
- Level of telephone access to citizens and tax professionals; and
- Number of notices that are error-free.¹⁹

RRA 98 also created the IRS Oversight Board. Five years into the IRS' efforts to implement customer-focused strategies, the Oversight Board conducted its second survey of taxpayer attitudes. One question related to customer service, i.e., how important were each of four customer services offered by the IRS. It was no surprise that a toll-free telephone service headed the list. Additionally, 79% or more of taxpayers thought all four services were either "very important" or "somewhat important".²⁰ Eight years later, the Board conducted a similar survey with very similar results. In 2010, more than 80% of taxpayers said that all four services were "very important" or "somewhat important".²¹ A comparison of the percent rating a service "very important" showed that office locations dropped from second place to fourth place between 2002 and 2010. Taxpayer interactions requiring technology (web site and electronic filing) increased in importance. Figure 3 below illustrates a comparison of the percent saying "very important" when asked: "How important is it to you, as a taxpayer, that the IRS provides each of the following services to assist taxpayers? "

¹⁹ Kerry, Bob and Portman, Rob. *Op cit.*, Appendix D.

²⁰ IRS Oversight Board. *Annual Report*, Washington DC (April 2003), Appendix A-1.

²¹ IRS Oversight Board. *2010 Taxpayer Attitude Survey*. Washington DC (January 2011), p. 7.

²² IRS Oversight Board. *Op. cit.*, (April 2003),.

²³ IRS Oversight Board. *Op. cit.* (January 2011).

Table 4. Taxpayers' Views on IRS Services Percent Saying "Very Important"		
	2009²²	2010²³
Toll-free telephone number to answer your questions	75-80%	75-80%
Office locations you can visit where an IRS representative will answer your questions	65-70%	60-65%
Web site to answer your questions	55-60%	65-70%
Opportunities for electronic filing of tax returns	55-60%	65-70%

The 2011 survey also showed less than 50% of taxpayers saw as "very important" community-based tax clinics, tax assistance vans or computer kiosks in libraries or shopping malls.

The surveys reported by the IRS Oversight Board were not being done in isolation. In July 2005, the Congress directed the IRS, the National Taxpayer Advocate, and the IRS Oversight Board to collaborate on a five-year plan for taxpayer service to ensure that service-related decisions are informed by research and guided by stakeholder engagement.

The team delivered the Taxpayer Assistance Blueprint (TAB) Phase 2 Report to Congress on April 11, 2007. Based on extensive research of the taxpayer perspective, this report provided a strategic direction for incorporating taxpayer and partner needs into service improvement decisions. The TAB brought about changes that are still embedded in the IRS working culture and business processes. The 2009 – 2013 IRS Strategic Plan further aligned the strategic approach from the TAB with the IRS business planning and decision-making process. The TAB represented a comprehensive and foundational research effort profiling taxpayer service needs, preferences, and behaviors.

Since 2007, the IRS research community has continued to enhance the understanding of service from the taxpayer perspective. The primary goal of service is to facilitate voluntary compliance by making it easier for taxpayers to comply with their tax obligations.²⁴

²⁴ Publication 4701, *Progress Report on the Implementation of the Taxpayer Assistance Blueprint – Annual Report to Congress*. Washington, DC: Internal Revenue Service (May 2011), pp. 4, 28.

Customer Satisfaction: Balanced Measures

In 1993, the Government Performance and Results Act (GPRA) required federal agencies to begin measuring the effectiveness of their programs and their overall performance. It also required agencies to submit to the Director of the Office of Management and Budget (OMB), and to the Congress, a strategic plan for program activities. Creating a strategic plan was not new for the IRS, but being required to submit copies to the OMB and the Congress was. The plan was to include, among other things, a comprehensive mission statement covering the major functions and operations of the agency and general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency. At that time, as discussed above, the IRS mission statement focused on the efficient collection of taxes.

Consequently, it is no surprise that, in line with 1990's mission statement, the NPR found that the IRS' GPRA performance measures in the 1990's were production driven, overvalued enforcement, focused on isolated steps (not outcomes) and may even have inadvertently encouraged unfair treatment of taxpayers. The Review noted that getting rid of the wrong measures was only part of the solution; the other part was to put the right measures in place. In their study, they looked at the 1996 IRS Data Book and noted that page after page described financial enforcement results in detail. Yet Table 10, "Taxpayer Assistance and Education Programs," took up only one-third of a page in the 44 page document.²⁵

In September 1997, Acting Commissioner Mike Dolan took a step towards getting rid of the wrong kind of measures when he suspended the use of dollar goals and quotas to rank the 33 IRS district offices based on their financial results; the use of goals for field offices for revenue from collections and audits; and the inclusion of penalties as part of exam-recommended assessments. He pointed out that, to conform to GPRA requirements, the IRS would continue to establish revenue production goals but would only establish and track them nationally. There would be no expectation of local offices having a "share" of a national goal.²⁶ The question became, "What should be the right measures?"

²⁵ Gore, Al, Rubin, Robert E., et al. *Op. cit.*, pp. 77-78.

²⁶ FS-97-25 *Next Steps for the IRS After the Senate Finance Committee Hearings*. Washington DC: Internal Revenue Service (September 1997).

In the 1990's, private sector companies had become interested in the concept of the Balanced Scorecard first described by Robert S. Kaplan and David P. Norton in a Harvard Business Review article. This article, and subsequent works by them, discussed private sector efforts to align corporate initiatives with the need to meet customer and shareholder expectations. The NPR benchmarked with several private sector companies that had started to use a Balanced Scorecard. One of the companies visited was FedEx. Here they found a man named John West who had created a balanced measures system he described as a three-legged stool: Business Results, Customer Satisfaction and Employee Satisfaction:

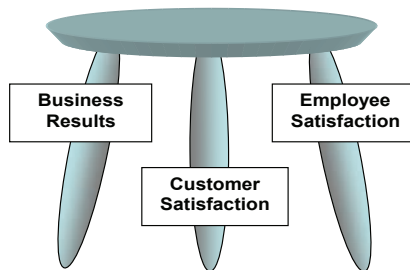


Figure 1. The Three-Legged Stool

Here was John West's rationale:

Think of the organization as a three-legged stool, with one leg as the employees, the second leg as customer service, and the third as profits. The length of each leg is determined by the amount of attention given to it. If you only look at profits, the stool will fall over. If you don't see that employee satisfaction equals customer satisfaction, that the everyday work of the frontline employee is how the customer experiences the organization then the stool will tip over. A balanced measurement system guarantees that you can easily see the status of your critical indicators and thus know how well the entire organization is functioning.²⁷

The NPR embraced the balanced scorecard model and included it in their recommendations for the IRS to "Measure What You Want to Get." The RRA 98 required the IRS to change its measures to balance customer service with overall tax administration responsibilities. IRS adopted the FedEx model.

²⁷ Gore, Al, Rubin, Robert E., et al. *Op. cit.*, p. 75.

By the end of the 1990's, the IRS had developed a Balanced Measurement System to reflect the Service's priorities, as articulated in the IRS mission. This new approach to measurement helped shift the focus of individuals and the organization away from achieving a specific target or number to achieving the overall mission and strategic goals of the IRS. In September 1999, Regulation 801 Balanced Measures formally established the IRS' new performance management system. The issuance of the regulation, which followed a public comment period, set forth the structure for measuring organizational and employee performance within the IRS. This regulation also prohibited the use of Records of Tax Enforcement Results (ROTERRS) in such a way that they would improperly influence the handling of taxpayer cases.

Since the establishment of the Balanced Measures, the IRS carefully considers customer satisfaction, employee satisfaction, and business results when setting organizational objectives, establishing goals, assessing progress and results, and evaluating individual performance. The IRS now uses balanced measures at both the strategic level and the operational level to measure organizational performance. At the strategic level, the IRS uses measures to assess overall performance in delivering on the mission and the current strategic goals. Strategic measures apply to the organization as a whole and to each of the major operating and functional divisions in the IRS. At the operational management level, the IRS uses balanced measures to assess the effectiveness of program and service delivery of particular components of the organization. At the individual level, critical job elements and critical performance expectations that support and align with the IRS mission and balanced measures are the basis by which managers evaluate employees, managers and executives at all levels of the organization.²⁸

The IRS measures quality of service (customer satisfaction) with a statistically valid sample of the taxpayers served by a particular operating division or who have recently interacted with a particular IRS program.

IRS accomplishes this most often through the use of surveys for the organizational unit overall. It also uses transactional surveys for its major programs affecting a significant proportion of the customers served by the organizational unit and/or using a significant proportion of the total resources of the organizational unit.

²⁸ Publication 3561 *Organizational Performance Management and the IRS Balanced Measurement System*. Washington DC: Internal Revenue Service, p.2.

The intent of the customer satisfaction component of the balanced measurement system is to ensure that the IRS considers customer satisfaction issues and needs and addresses them in organizational planning, budgeting and review activities. For example, when developing strategies to improve business results, IRS considers the impact on customer satisfaction outcomes.²⁹

The TAB’s Publication 4701 cited above includes a table of Service Measures Criteria shown below. The purpose of the table is to assist in the development of specific, strategic, meaningful and balanced measures. It is a tool to help answer the question, “What should be the right measures?”³⁰

Table 5. Service Measures Criteria		
Assessment Criteria		Guiding Question
Supports Long-Term Goals		Does this measure represent the long-term goals of the IRS?
Supports Strategic Plan		Does this measure represent the goals and objectives of the TAB and IRS Strategic Plan?
Data Availability	Today	Is the data for this measure available now?
	Future	Can the IRS gather data for this measure?
	Process	Is this measure a count of process activity?
Congressional or Stakeholder Interest		Does this measure cover areas that address external stakeholder interests?
TAB		Was this measure developed as part of the TAB?
Customer Focused	Taxpayer	Does this measure represent the perspective of the taxpayer?
	Partner	Does this measure represent the perspective of external partners?
	Practitioner	Does this measure represent the perspective of practitioners and preparers?

²⁹ *The IRS Balanced Performance measurement System in IRM 1.5.1.8.1. Washington DC: Internal Revenue Service (November 2011).*

³⁰ *Publication 4701 cited above, p. 46.*

Table 5. Service Measures Criteria	
Supports Budget Submission and Initiatives	How well does this measure align with budget items?
Benchmarking	Are there external examples to use as benchmarks for this measure?
Opportunity for Change	Does this measure have enough viability to be useful?

2005 saw a revision to Regulation 801 to allow some use of quantity goals for organizational units and employees and to authorize the use of quantity measures to evaluate the performance of organizational units. The revision, however, did not alter in any way RRA 98's prohibition on the use of ROTERs to evaluate employee performance, or to impose or suggest production quotas or goals for any employee.³¹

The IRS Oversight Board uses the American Customer Satisfaction Index Score (ACSI) for Individual Tax Filers. The ACSI is a national indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. In 1999, the federal government selected the ACSI to be a standard metric for measuring citizen satisfaction. This links customer expectations, and perceptions of quality and value with customer satisfaction. Agency participation is voluntary. The goal has been for the overall IRS ACSI score to reach 72 (on a 9-100 scale) by the year 2013. It has been 65 or above since 2006.³²

The 2011 annual survey by the American Customer Satisfaction Index shows that satisfaction with the IRS is at 73 among all individual tax filers. This is an all-time high -- up from 70 in 2010.

Satisfaction among individuals who filed electronically rose to 78 in 2011, up from 77 in 2010. Satisfaction scores among paper filers came in at 57 in 2011, up from 54 in 2010.

The increase in the overall satisfaction score is due in part to the substantial increase in the share of electronically-filed returns, compared to paper returns, in 2011.

³¹ *Uses of Section 1204 Statistics in IRM 1.5.2.2. Washington DC: Internal Revenue Service (June 2010).*

³² *IRS Oversight Board. Annual Report to Congress (2010), p. 45.*

Overall citizen satisfaction with the federal government was 66.9 in 2011, up from 65.4 in 2010.³³

4. CONCLUSIONS

The IRS has learned a lot over the last 2.5 decades about creating and implementing strategies to improve the quality of service. There are several key conclusions that emerge from this story.

- Be proactive and rigorous when assessing organizational performance.
- Organize around your goals and the needs of your customers.
- Involve your customers in identifying their needs and measure their satisfaction with how well the organization meets their needs.
- Used balanced measures of performance remembering the lesson of GPRA, i.e., you get what you measure.
- Finally, align the performance management system top to bottom with the organizational goals and the balanced measures of performance.

³³ *American Customer Satisfaction Index. Federal Government Gains in Citizen Satisfaction and Narrows Gap with Private Sector – 2011 Citizen Satisfaction by Federal Department. Ann Arbor, Michigan (January 19, 2012)*

STRATEGIES AIMED AT IMPROVING THE QUALITY OF THE SERVICE

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Summary: 1. Introduction. - 2 Implemented services and inherent benefits.

1. INTRODUCTION

Portuguese government has adopted an ambitious plan which has been submitted by Tax Administration with the aim of turning Portuguese tax administration into one of the most efficient and innovative in the European Union and, at the same time, become an efficiency factor and a partner of excellence and of value creation both for businesses and taxpayers.

We may define the objective of the Plan into a single idea: to place taxpayers at the center of the tax administration system. In fact, the whole Plan is focused on service to taxpayers and our ambition is to make the Portuguese tax authorities into an efficiency factor in the economy and in the society as a whole.

The Taxpayer's Quality Service Plan has won in 2010 the 8th edition of the Good Practices Award in the Public Sector.

The Plan for Quality is being implemented since 2009, comprising 39 projects and it is divided into two major chapters:

- First, the external interface of tax administration, i.e., the taxpayers' contact functionalities;
- Secondly, the internal functionalities of the administration, proceedings, databases, registers and internal organization of tax administration, which are essential to a good provision of external services.

In what concerns tax administration external interface, a customer strategy, that relieves taxpayers from going to tax offices, has been

implemented to substantially reduce the financial, time and bureaucratic costs they needed to incur in order to comply with their tax obligations.

Tax and Customs Authority (AT) continuously interacts with taxpayers and with a set of public and private partners with whom it systematically exchanges essential information to control system operation and its own efficiency and effectiveness.

AT, taxpayers and these public and private stakeholders are partners and form, together with legislation, a community of tax law system operators which should be considered globally so that it's functioning becomes simple and efficient.

Agents involved in the whole system form a true fiscal cluster and AT may play a decisive role in the efficiency of its operations.

Economic agents' tax burden is an important factor in competitiveness, but so are the administrative costs associated with tax compliance, i.e. the system side operation costs, taking into account two competitiveness and efficiency key factors:

- On the one hand, the information flow between all agents in the tax clusters, eliminating taxpayers' need to carry information from one agent to the other one;
- On the other, the systems integration to avoid transmission information errors, which affect service quality and always generate disputes among system agents.

More than the core of the tax system, AT is a partner of a market in which it must operate with high levels of efficiency and competitiveness.

In an international competitiveness context, tax administrations efficiency is also an important factor in the economic agents' investment decisions.

Without excluding any taxpayer, AT provides all its services on the Internet, dematerialized, in both directions, all communications with taxpayers and implemented a network of call centers through which all taxpayers may solve and clarify their tax issues.

2. IMPLEMENTED SERVICES AND INHERENT BENEFITS

Within the strategy of promoting the quality of service provided to taxpayers, innovative services with a global scope have been implemented, such as:

Certificates, proof documents and other administrative documents on the Internet : These documents, including tax clearance certificates, notification duplicates and debt certificates are currently available on the Internet, free of charge, for all citizens and businesses;

E-mail and SMS Notices: The Portuguese tax administration notifies all taxpayers of their tax obligations before the end of the statutory period. This warning is made in a personalized manner, by e-mail to each taxpayer, on the 1st day of the maturity date month for compliance and then, again, three days before the end of that period. On the last day a SMS message is sent to all taxpayers who have not yet met all of their obligations. In 2011, 27.1 million communications of this nature have been sent. This type of voluntary compliance support is very important, as it strongly reduces the costs of non-compliance (interests on arrears, penalties and other costs), both for taxpayers and businesses, and for the AT itself.

Twitter: Operating since early 2010 as information service and regular posting support messages to taxpayers;

Electronic documents and notifications: From the current year about 70% of the communications sent to taxpayers by the Portuguese tax administration began to be always made electronically, eliminating paper in all TA-taxpayers communications , whenever the latter are VAT or corporate income tax liable persons;

Integrated attendance and communication channels management: A taxpayer attendance integrated management system has been implemented, which allows the implementation of a tax administration attendance policy, integrating communication channels (face to face, telephone and Internet). The system is managed by a computer application CRM (Customer Relationship Management) which allows a customer service segmentation targeting it across all the Tax Authority.

Telephone Support: A customer service strategy has been developed in order to give the telephone channel all the conditions for a continued efficiency growth and for a cost reduction both for taxpayers and for AT. This integration is based on the coordination of all communication channels. AT has decentralized CAT - Telephone Service Centre, implementing clusters in 14 regional offices and in 75 local services which use the same network throughout the country. As a consequence the number of customer service calls more than doubled, rising from 460,000 in 2009 to nearly one million in 2011, equivalent to an attendance rate of more than 90%.

In 2011, the implementation of outbound campaigns began with telephone calls at the initiative of AT, alerting taxpayers with tax debts about the advantages of settlement and compliance.

The availability of this service provides taxpayers with a substantial saving in compliance costs, reduces AT operating costs and releases available resources to tasks with high added value that society and the economy are increasingly demanding;

E-mail support: e-mail address service is being restructured, to become a part of the CRM system, and be distributed by the attendance network and operated with the same resources that are allocated to the face-to-face and telephone services. In the first half of 2012 the implementation of a second line of specialized attendance service will be completed. It will call highly skilled officials who have successfully completed a program of postgraduate studies in the four major Portuguese universities;

Information leaflets: Information leaflets with all the information about rights and obligations have been developed and will be available to the different segments of taxpayers;

Electronic "Green Receipts": An electronic web-based invoicing system, specific for self-employed persons has been implemented, being available at the Tax Authority webpage. Using it these professionals can issue the receipts that prove the payment of services they provided, and the system immediately gives the customers the faculty of consulting such documents on the Internet;

Letter Of Commitment on Quality: A poster, publicly posted in all AT offices, binds them to a quick resolution of taxpayer claims, setting out for each type of cases the average time spent in their resolution;

As for the administration's internal functionalities, the Plan will lead to a full dematerialization of the administration internal procedures, allowing taxpayers, through the Internet, to check his/her status and interact with the competent tax services in order to discuss and solve their tax issues.

An IT work-flow system across all central, regional and local tax administration offices has been implemented, through which all incoming paper documents are immediately scanned. This system will produce a paradigm shift in the operating model of the Portuguese tax administration, as:

- It will progressively eliminate, within services, paper as a work support;
- It will make the process analysis, assessment and decision, possible to be made in any Tax Authority department, regardless of its geographical location, allowing networking between all services;
- It will eliminate paper based and mail processes circulation between services, as that flow will be replaced by a simultaneous and shared access.
- It will optimize the human resources allocation according to the service needs, increasing the services productivity and improving internal organization.

Tax Authority also concluded the implementation of a wide range of automating back-office procedure systems which have brought an increase of quality, including the following services:

Payment of reimbursements on the spot: In 2010 and 2011, AT Income Tax reimbursements have been paid, on average, 15 days after the submission of tax returns, long before the statutory period of five months. More than 2.1 million taxpayers benefited from this measure and € 1.7 billion were paid;

Response to requests for recognition or enforcement of rights: AT eliminated all pending cases, responding now in a short average period of one month to all taxpayers' requests and applications, either relating to complaints or to applications for the recognition of tax benefits right, but also to payment of refunds;

Pre-filled income tax returns: The Portuguese tax administration IT system automatically fills about 90% of the fields included in the income tax returns and provides taxpayers with these pre-filled returns on the Internet. This level of automation substantially reduces the error possibilities and also the taxpayer's compliance costs;

Automatic evaluation of "property": The Portuguese tax administration IT system automatically evaluates the urban real estate, exempting the need to present evaluation supporting documents by the owners. During 2012 about not yet assessed 5.2 million properties evaluation will be carried out, as per the new regime created in 2003, with the owners being released from any correlative obligation.

Information qualification and consolidation: A comprehensive plan to eliminate inefficiencies in the systems interfaces and on manual

procedures, by eliminating error generator inefficiency factors in the services, was concluded.

Other implementation projects are underway, such as direct debit, customization of Tax Administration webpage - Portal das Finanças.

As a consequence of the implementation of the Plan for Quality, the 2012 State Budget enshrined three new rights for taxpayers:

- The right to be informed of their tax obligations by tax administration, whenever it becomes aware of them;
- The right to be informed of their rights, in particular of their tax benefits, whenever tax administration becomes aware of them;
- The right to voluntarily settle non-compliance situations detected by tax administration, and in this case, enjoy the right of a 12.5% statutory minimum reduced fine.

The implementation of these rights is electronically informed to taxpayers by AT, as per the previously referred situations, and shall become a tax administration obligation.

With this strategy, AT is placed at the taxpayers' service, continuously interacting with them and focused on the objective of promoting and supporting their tax voluntary compliance. In line with law enforcement and State interests defense, AT wants to be increasingly on the side of taxpayers, overcoming, whenever possible, their highest expectations and providing them a quality service, with swiftness, efficiency and effectiveness and becoming an efficiency factor both for businesses and for the economy in general.

AT applies effectively and systematically the principle that more important than to react to situations of tax non-compliance (or at least equally important), is to prevent non-compliance and promote voluntary compliance by helping and informing the taxpayers.

The implementation of the Plan for Quality occurs in an environment of a major tax administration reform which created the conditions for the Tax Law to be efficiently applied in all cases, particularly when taxpayers do not voluntarily comply with their tax obligations.

Since 2005, DGCI (now AT) began a vast project to computerize, dematerialize and automate all the procedures for enforced collection, for administrative offences, for the administrative stage of criminal investigations, as well as administrative procedures of administrative and judicial claims, providing through the Internet all the available functionalities existing in the different services.

In this context, the system for sanctioning tax offenses was the first one to suffer the necessary developments. It is assumed as a tax system security instrument ensuring the non-compliance prevention and the smooth system operation.

A strategy based on the widespread use of information technology, enabling the dematerialisation of processes, the automation of their processing and the use of the Internet as a privileged relational interface with taxpayers has been developed.

Currently the procedure for sanctioning administrative tax offences is fully electronic and automatic. The Administrative Offences Management System (SCO) interacts electronically with all taxes management system, and by crossing and electronically data transmission, without any manual involvement by the officials, it detects all offenses in all the different taxes and initiates the legal actions for imposing fines.

All relational interfaces with taxpayers became available on the internet, since the access to the payment of fines process (which now can be performed in the ATM network, using online services of credit institutions (home-banking), Post Offices (CTT) or any Tax Office). The result is a decreasing in compliance and context costs for taxpayers, who nowadays receive from AT an efficient service which immediately reveals all non-compliance situations. Taxpayers are now able to send all communications with tax offices, through electronic means using the Internet. These services created a more friendly relationship between taxpayers and AT.

AT increased efficiency in the collection of the budgeted tax revenues (under State Budget) decisively contributing to the consolidation of the public finances system.

In order to reduce delays in the enforcement proceedings, tax Administration has enhanced procedures to make processes extinction in the shortest time. The aim of this is, firstly, to defend taxpayers' right consisting in not having their debt aggravated by the delay in the correlative recovery and extinction. On the other hand, the increased celerity in the services actions shows the AT efficiency in the collection of tax credits, disseminating in public opinion the idea that tax non-compliance does not pay anymore.

The widespread use of new technologies in tax procedures, the commitment on enhancing human resources skills, and their quick adaptation to its use as an essential work tool, enabled an irrefutable

growth of TA effectiveness in the fight against tax evasion, fraud and non-compliance.

The strategy followed in Portugal has led to increasing levels of voluntary tax compliance - in what concerns the 2009 submission of natural persons income tax returns, a 98.84% level of voluntary compliance was reached being the non-compliance rate of only 1.16%, and with regard to Corporate Income Tax and VAT returns, in 2010, the level of voluntary compliance was of 89.17% and 93.4% respectively.

To quantify the citizen's degree of satisfaction, the following indicators have been defined by AT:

- Taxpayers' level of satisfaction: Internet channel (%),
- Average response time to customer service claims: RCM 189/98 (%),
- Average waiting time at Tax Offices (minutes),
- Income Tax returns electronically submitted (%),
- Handled calls at Call Centres (%) (Handled / received calls).

Every year, AT provides at its webpage, Portal das Finanças, questionnaires to the common users, Notaries and Chartered Accountants with the aim of gathering their views on the quality of services provided by this Tax and Customs Authority.

In 2010, a total of 33,439 responses have been received (Common Users - 28,502, Chartered Accountants – 4,843, Notaries - 94).

As per the evaluation of the Internet channel itself, among the 32,223 respondents who reported having used Portal das Finanças in 2010, 87.4% qualified the service provided through this channel as “very good” (24.3%) and “good” (63.1%).

TOPIC 3

MEASUREMENT OF VAT AND INCOME TAX EVASION BY INDIVIDUAL AND CORPORATE TAXPAYERS

MEASUREMENT OF VAT AND INCOME TAX EVASION BY INDIVIDUAL AND CORPORATE TAXPAYERS

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*Contents: Summary.- 1. Introduction.- 2 General background information.
- 3. VAT evasion estimate.- 4. Estimating income tax evasion for
enterprises.- 5. Physical spot check method to estimate under-
declaration on VAT sales.- 6. New sampling method to estimate
evasion.- 7. Conclusions and recommendations.- 8 References*

SUMMARY

Tax evasion constitutes one of the main problems in all tax administrations (TAs). Knowing to what extent taxpayers are complying with their obligations is of great importance to periodically evaluate the performance of the TA and to improve its control strategies, mainly on taxes which are most frequent, which in Chile's case correspond to Value Added Tax (VAT) and Income Tax.

According to the method of theoretical potential used by the Chilean Tax Administration (CTA) to measure evasion, the evasion rates for 2009 are of 18% on VAT and 31% on First Category Income Tax¹ (FCIT), reaching an evasion of 3.025 billions of Chilean pesos on these items, which represents 23% of the total revenue of the period and 3.4% of the Gross Domestic Product for that year.

This figure is heavily influenced by the recent global economic crisis which also affected Chile towards the end of 2008 and the middle of 2009, causing a rise in income tax evasion, and revealing the importance of making a greater effort to count on evasion estimates which are classified by type of taxpayer and allow to guide the acts of auditing in a better way, and by doing so reverse the increase of evasion.

¹ FCIT is similar to Corporate Income Tax

Due to the limitations of these methods to count on disaggregated estimates of evasion broken down by industry or geographical locations, complementary methodologies have been used, based on sample audits, such as the physical spot check method, to measure VAT evasion by under-declaration of sales. However, investment of considerable resources is required to obtain estimates which are reliable.

Due to this motive, the CTA is currently implementing a new method of measurement based on preannounced auditing notifications, which will allow to count on evasion estimates broken down by economic sector, segment and/or geographical location, reducing the costs of application and obtaining evasion estimates based on taxpayer behavioral changes and not the result of the audit, as in traditional sampling methods.

The objective of this report is to offer a synthesis of the work that has been done in Chile in recent years to measure evasion and present the new method which is being introduced, with the goal of contributing to the current and future discussions on this topic.

1. INTRODUCTION

The CTA has made significant efforts in the last decade in terms of modernization and generating resources to finance the State, which have allowed for substantial improvements in the level of tax compliance, positioning it as an international referent on tax issues. It is in this way that in this most recent period, the Chilean tax administration has characterized itself for having levels of tax compliance which are some of the most notable on a global scale².

Notwithstanding, at the end of the year 2008, a few worrying indicators have been observed, such as a decrease in auditing revenues and an increase in evasion, due to various factors which affected the global economy and which most likely triggered an increase in tax non-compliance.

² *Chile collects 98.3% of its taxes voluntarily, presenting one of the best levels of tax compliance on a global scale, according to the information given by the Organization for Economic Cooperation and Development (OECD).*

The aforementioned, in addition to a greater tendency of taxpayers to commit tax fraud³, has generated the need to rely on more periodical evasion estimates, of taxpayer groups, which allows focusing resources and auditing actions, on those with greater risk of tax non-compliance.

2. GENERAL BACKGROUND INFORMATION

Tax evasion stems from any fraudulent action to avoid the total or partial payment of a tax. In this way, the evaded amount or tax gap corresponds to what the State does not receive as a consequence of taxpayers not declaring what corresponds to them according to their tax obligations, whether voluntarily or involuntarily.

The aforementioned acquires relevance when considering that tax revenues account for close to 75% of the resources by which, year to year, the Chilean State upholds its expenses and investments, reaching the figure of 17.6 billions of Chilean pesos during 2010⁴, of which the VAT comprises 47% and Income Tax 41%, being the two most important taxes in the Chilean tax system.

In addition to eroding government revenues, evasion attempts against the principles of equality and social cohesion. Evasion affects horizontal equity, since evaders end up paying less tax than those taxpayers who with equal payment capacity, decide to comply with their tax obligations. Likewise, it can affect vertical equity, mainly on progressive income rates, since the higher the tax rate is, the greater is the incentive to evade.

Availability of evasion estimates are important for various reasons. Firstly, knowledge of the magnitude of tax evasion allows the scope of the problem to be assessed and can determine the assignment of additional resources, to define auditing policies or to modify tax legislation. Secondly, evasion figures can be utilized as an efficiency measure for the performance of the TA through time. Finally, it enables measuring the effect of auditing policies and taking corrective action. If the TA had at its disposition evasion estimates by income and economic sector, it could focus its auditing resources on evasion-prone taxpayer groups, and in such a way improve its efficiency and effectiveness.

³ According to a study of corporate image conducted in 1998 and 2007, taxpayers with the highest propensity to commit fraud increased in aforesaid period from 9% to 15%, while those with good behavior decreased from 24% to 21%.

⁴ Considering the Tax Revenues of the Central Government (without including Codelco, the Municipalities and Social Security).

2.1 Most common forms of evasion in the Chilean Tax System

The mechanisms of evasion on the VAT, which is the most profitable tax in the Chilean Tax System, are linked to an under-declaration of debits or to an over-declaration of credits. In the case of debits, the most common evasion practices are making sales without a receipt, with emphasis on those which are sold to the final consumer⁵, the misuse of credit memorandums and under-declaration of accounting records and tax returns. In the case of credits, false claims for credits or credits claimed for VAT on purchases that are not creditable, and over-declaration of accounting records and tax returns.

In the case of FCIT the mechanisms of evasion are devised by falsifying accounting procedures on the VAT⁶ (under-declaration of sales and/or over-declaration of purchases); the declaration of fictitious or adulterated expenses, such as payrolls and transfer pricing, the misuse of income credits and under-declaration on accounting records and income tax returns. Also, some loop holes are conceived such as withdrawals from investment funds and the misapplication of accelerated depreciation⁷, which are used by some enterprises inappropriately, allowing them to delay paying taxes as established under normal conditions.

2.2 Methods to measure Evasion

Different methodologies are used by tax administrations to measure evasion, some oriented towards measuring total evasion and others towards measuring the magnitude of the informal or underground economy⁸. The main difficulty of the research done in this field is that, by definition, evasion is a non-observable behavior outside the law.

This implies that it is not possible to obtain measurements in a direct way from existing data banks in TA's and indirect methods must be resorted to.

5 *In transactions on the level of final consumer the receipt is the official stamped document as well as in intermediate transactions, the invoice is official stamped document.*

6 *It is estimated that approximately 75% of FCIT evasion is due to VAT evasion.*

7 *Accelerated depreciation allows a taxpayer to depreciate their investment in fixed assets on one third of the standard depreciation, with the aim of encouraging investment in capital goods, which means a lower income tax payment in the first years and a greater tax payment in subsequent years.*

8 *The underground, informal or illegal economy can be defined as the web of transactions that are produced without adjusting to the tax legislation, transgressing the law and evading taxes. This type of business is embodied through hidden sales which legitimate businesses engage in and can imply the evasion of all taxes.*

According to Tanzi and Shome (1993), the methods to measure evasion can be classified into four categories:

- i. **National accounts method:** uses information from national accounts to build the theoretical base of the tax, which is later compared with information of the TA to establish an indicator of the degree of noncompliance.
- ii. **Sampling or direct control methods:** a random sample of taxpayers is chosen thus obtaining an estimate of individual evasion, and later extending the results to the total population.
- iii. **Household budget survey method:** uses information from surveys to get an estimate of income, which is later compared with the TA's information to determine the gap.
- iv. **Taxpayer behavioral surveys:** a random group of taxpayers is surveyed about their behavior when declaring taxes.

While there are many TA's which apply these methods, one of the main difficulties is caused by the systemization of the measurements, since there are few countries which have annual evasion estimates. Furthermore, these results are not always public, making it difficult to compare figures and the applied adjustments.

Of these methods, the most utilized is that of the theoretical potential, which estimates the potential collection based on national accounts, normally used to measure VAT evasion and income tax of enterprises. Within its advantages are the possibility of building an annual series of evasion to evaluate the tendency of this indicator through time, as well as its simplicity and low cost. Its disadvantages are related to the limitations of reliability and availability of the information in national accounts, which can use tax information in its construction, causing the calculations of noncompliance to be underestimated.

In relation to sampling methods, their main advantage is that if they are applied correctly, they allow for disaggregated evasion estimates, and of a greater periodicity than the method of theoretical potential, obtaining results classified in defined categories, according to the interests of the TA. In simple terms, this consists of choosing a random sample of taxpayers to audit and to obtain an indicator of tax noncompliance, the results of which can later be expanded to the population.

Because there are no specific evasion hypotheses for these cases, the quality of the results will depend on the depth and knowledge

with which the audits are carried out, allowing uncovering only a part of the total evasion. Moreover, to the degree that results with a greater level of disaggregation are sought, the sample size must be significantly increased to obtain results which are statistically reliable. This causes these methods to be generally quite costly in auditing work hours, because they require a high number of audits, which are comprehensive. Due to the randomness of the sample, these types of audits are not very popular amongst TA employees, who feel their work is evaluated according to the direct results of the audit, and so, they do not want to spend their scarce resources on random audits. Nevertheless, these methods have been applied to specific cases depending on the interests of the TA.

In all cases, the tax evasion is determined as the difference between theoretical collection⁹ which would be accomplished if all taxpayers complied with their tax obligations, and the actual collection that did in effect enter the treasury funds. Usually it is measured in percentage terms, to be able to have a comparative measure with other taxes in the tax system, and even with similar indicators of other countries.

In particular, the CTA utilizes the theoretical potential approach to estimate VAT and FCIT evasion, using information from national accounts to approximate the theoretical tax base and generate a time series of evasion.

In the case of the VAT, final household consumption expense information is utilized and in the case of FCIT data from the operating surplus is utilized.

Regarding the sampling approach, this has been used to measure VAT evasion on sales to the final consumer. In this case, the estimates of evasion are obtained by the comparison between the level of sales of each taxpayer during a physical spot check by the TA and the level of sales declared by the taxpayer in previous periods.

Additionally, the CTA is developing a new sampling method to estimate evasion on the VAT, based on auditing notifications, which will allow counting on disaggregated evasion estimates, by economic sector, segment and/or geographical location, and is not based on detecting evasion at the moment of conducting audits like traditional methods, but more on an analysis of their tax payments before and after being pre-notified.

⁹ *It can also be measured in terms of the tax base.*

3. VAT EVASION ESTIMATE

The VAT has become a key component of tax collection, representing 47% of the total tax revenues collected at the central government level.

Due to its importance, the CTA has an annual VAT evasion estimate series since the 1980's, using for its methodology what is known as "non-deductible VAT" based on the method of theoretical potential, which estimates, according to macroeconomic aggregates, the total amount of the transactions which generate VAT, which subsequently do not give right to tax credit within the chain of added value. These measurements have served to evaluate the performance of the tax administration, observe the impact of financial crises on noncompliance and establish quantifiable goals in the institution.

3.3 Methodology

In general terms, the theoretical base is estimated based on the final consumption of households, of which the fraction that is exempt is excluded and the intermediate consumption from the exempt sectors are added, whose input VAT is not creditable, and is part of its production costs. Finally, upon applying the currently applicable VAT rate to the base, the theoretical collection is obtained, which is compared to the actual collection, the difference between both of them being the evaded amount of this tax.

$$\text{Theoretical Base} = \text{HFC} + \text{APPE} + \text{CANR} + \text{EA} - \text{VATNA}$$

Where:

- HFC: VAT taxed Final Consumption of Household.
 APPE: VAT taxed purchases for the production of goods and services exempt from VAT.
 CANR: VAT taxed consumption of goods and services by persons notresiding in the country.
 EA: Exports that may eventually be taxable.
 VATNA: Actual VAT charged in the national accounts.
 VAT taxed final consumption of households is part of the non-deductible VAT. This variable is estimated from the figure of final consumption (in the national accounts), from which consumption not taxed with VAT (exemptions) are deducted.

The relation with which the taxed consumption is estimated is given by:

$$HFC = FC - CGSE - DF - CHE - OC - T - D$$

Where:

FC: Final Household Consumption.

CGSE: Consumption of goods and services exempt from VAT.

DF: Consumption of affected goods which are purchased in duty free or other territorial areas which are VAT exempt on sales to final consumers.

CHE: Consumption which households realize abroad.

OC: Agricultural own consumption (even though on some legislation it is considered taxable sale, it is preferable to exclude it from the base due to its improbable payment).

T and D¹⁰: Tips and donations.

The actual collection should be comparable with the estimated theoretical collection. This means that it should consider the accrued basis collection, comparable to the final consumption generated by non-deductible VAT of the economy, which is obtained directly from tax revenue based on information from the General Treasury of the Republic, defined as:

Internal VAT + Imports VAT – Construction Companies Special Credit¹¹

The amount of evasion is defined as the difference between the theoretical collection and the actual collection standardized according to the VAT rate of the period, while the evasion rate expresses the amount of evasion as a percentage of the theoretical collection:

$$\begin{aligned} \text{Evasion Amount} &= \text{Theoretical Collection} - \text{Actual Collection} \\ \text{Evasion Rate} &= (\text{Evasion Amount} / \text{Theoretical Collection}) * \\ &100 \end{aligned}$$

3.4 Results

Table N° 1 presents the results of the estimated annual VAT tax evasion for the period 2003-2009 using as a base the Input-Output Matrix of the year 2003.

¹⁰ It should be mentioned that the magnitude of the amounts of OC, T and D have little relevance in the estimation, so they may be omitted when no information is available, without the estimation results being affected. However, these variables have been included in the methodology for greater completeness of the model.

¹¹ Decree Law No. 910 grants a credit to construction companies, equivalent to 65% of the VAT tax debit supported on the sale of real estate destined for housing built by such companies and on the general construction contracts other than for administration of such property.

Table N° 1
VAT amount and evasion rate - Base 2003 Input-Output Matrix
(Amounts in billions of Chilean pesos)

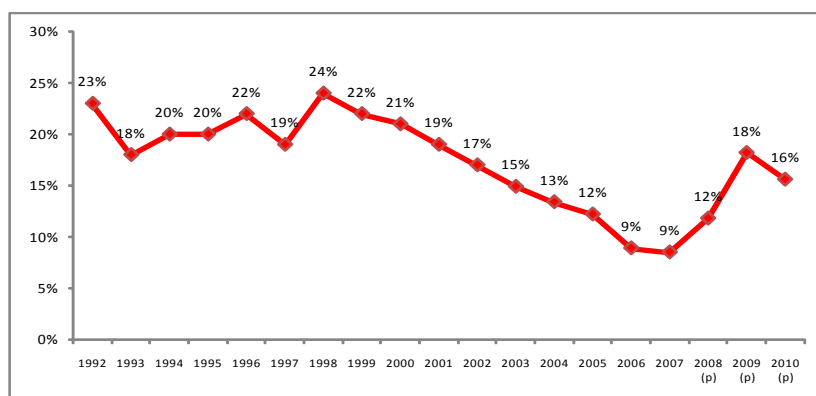
Commercial Year	Theoretical collection	Actual collection	Evasion Amount	Evasion rate
2003	4.745	4.039	705	15%
2004	5.300	4.590	710	13%
2005	6.019	5.285	734	12%
2006	6.565	5.981	584	9%
2007	7.409	6.781	628	9%
2008 ^(p)	8.338	7.357	980	12%
2009 ^(p)	8.503	6.952	1.552	18%

Source: Elaborated by the Research Division of the CTA

(p): provisional figures subject to change in the national accounts of the Central Bank

Figure N° 1 illustrates the historical evolution of the rate of evasion from 1992 to 2010. Accordingly, there is a steady decline in the rate of VAT evasion from the year 1998 onwards, reaching a historic low of 9% during 2006 and 2007, which is influenced by the Plan to Fight against Evasion (Law 19,328) that was implemented in 2001-2005¹². However, in the following years a considerable increase in the rate of evasion is observed, following the global economic crisis that affected Chile in late 2008 and early 2009.

Figure N°1
VAT Evasion Rate Period 1992-2010



Source: Elaborated by the Research Division of the CTA

(p): provisional figures subject to change in the national accounts of the Central Bank

¹² For further information go to <http://www.sii.cl/evasion/evaluacion.pdf>.

3.5 Limitations

In general terms, the limitations of the method for measuring the theoretical potential are mainly related to the reliability of national accounts as a source used to quantify the potential collection, the availability of information and level of aggregation of the measurement.

In the case of national accounts, figures are usually modified up to three years back from the present date, which may cause significant variations in estimated evasion, depending on how much the published figures vary. The same is true with the Input-Output Matrix (IOM), published every 5-7 years, which is used to estimate the exempt production in each sector of the economy, which causes the estimated evasion rate to be provisional until the information is definitive (discrepancy of at least 3 years).

Additionally the national accounts constructed from tax records may be tainted by evasion and do not record the value added of informal activities, which may generate an underestimation of potential collection. Other cases such as the proportionality of the affected sales of a sector relative to intermediate consumption used in its production may also underestimate or overestimate the potential collection of VAT, as applicable.

Moreover, this method is limited to obtaining a figure of aggregate evasion, considering the economy as a whole, and does not provide estimates at a disaggregated level by groups of taxpayers, making it difficult to take corrective action in the short term.

4. ESTIMATING INCOME TAX EVASION FOR ENTERPRISES

In the specific case of FCIT, this tax accounted for 18.6% of the total tax revenue collected at the central government level in 2010, so that, together with the VAT, are the two main sources of tax revenue for the country.

4.1 Methodology

The method used to estimate noncompliance in FCIT calculates the tax collection potential taking as its theoretical base the operating surplus of national accounts, which must be properly corrected to reflect the differences between this macroeconomic concept and the tax base of the FCIT.

The methodology for estimating the theoretical tax base of national accounts bases its calculations on the operating surplus¹³, which is defined as the balancing item of the production account, which means, it corresponds to the gross production at producer prices minus intermediate consumption, payrolls, consumption of fixed capital and indirect net taxes of subsidies.

Then, adjustments are applied to the surplus in order to assimilate it to the tax base of the FCIT, which are outlined below¹⁴:

Table N° 2
Estimated Theoretical Tax Base of FCIT

Sign	Item	Source
Financial Profit		
(+)	Operating surplus	Central Bank of Chile
(+)	Mixed income	Central Bank of Chile
(+)	Interest received	Central Bank of Chile
(-)	Interest paid	Central Bank of Chile
(+)	Net income from land	Central Bank of Chile
Operating surplus of activities which are not taxed		
(-)	Homeownership, DFL2 and leases	Central Bank of Chile
(-)	Freelancers	CTA
(-)	Regional Franchises	CTA
Operating surplus of presumptive regime		
(-)	Agricultural	Central Bank of Chile
(-)	Transport	
(-)	Mining	
Other items		
(-)	Temporary differences between tax and financial accounting	CTA and Superintendence of Securities and Insurance (SSI)
(-)	Donations accepted as an expense	CTA
(+)	Monetary correction and exchange differences	SSI and Superintendency of Banks and Financial Institutions (SB (SBI)
Loss adjustment		
(-)	Loss carry forwards	CTA
(+)	Loss of prior period	CTA
= FCIT Theoretical Base		

Subsequently, the statutory rate of FCIT in effect for the respective business year is applied to the theoretical tax base, and the credits reported on tax returns are deducted in order to obtain the theoretical collection.

¹³ The surplus can only be obtained by industries or market producers. The gross operating surplus includes the allocation for consumption of fixed capital.

¹⁴ This method includes the FCIT base of CODELCO, which is usually not included in tax revenues statistics, as it is added to other fiscal accounts related to copper income.

Also, the actual collection is obtained as the sum of the collection of FCIT, which comes from tax statistics managed by the Directorate-General of the Budget, plus the tax that is collected for this purpose from CODELCO.

4.2 Results

By performing the above adjustments to the operating surplus, we arrive at the following figures of theoretical and actual tax collection, evasion amount and evasion rate for the period of 2003-2009.

Table N°3
Amount and Rate of FCIT Evasion
(billions of Chilean pesos)

Commercial Year	Theoretical Collection	Actual Collection	Evasion Amount	Evasion Rate
2003	2.639	1.479	1.160	44%
2004	3.488	2.159	1.329	38%
2005	3.862	2.729	1.133	29%
2006	5.411	4.163	1.248	23%
2007	5.614	3.970	1.644	29%
2008 ^(p)	5.190	3.903	1.287	25%
2009 ^(p)	4.772	3.299	1.473	31%

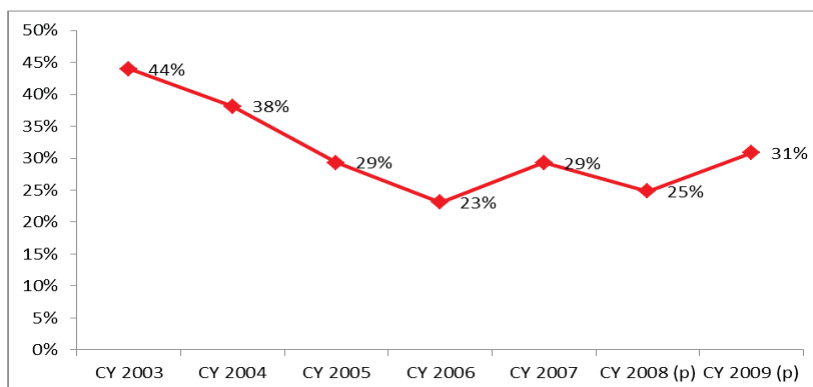
Source: Elaborated by the Research Division of the CTA

(p): provisional figures subject to change in the national accounts of the Central Bank

The behavior of the evasion rate in the FCIT in the period studied is presented in Figure N° 2, which shows that between the commercial years 2003 and 2006 there is a decrease in the evasion rate. It is worth noting that the initial years of this period coincide with the final phase associated with the Plan to Fight against Tax Evasion (Law 19,328), which was in effect between the years 2001 and 2005 and was committed to greater collection goals for the aforementioned years¹⁵.

¹⁵ For further information go to <http://www.sii.cl/evasion/evaluacion.pdf>.

Figure N°2
Rate of FCIT Evasion



Source: Elaborated by the Research Division of the CTA

(p): provisional figures subject to change in the national accounts of the Central Bank

Later, in 2006, the lowest rate of evasion in the series is observed (23%), year which also corresponds to one of two years with the lowest evasion rates recorded in the VAT since 1990. Finally, between 2006 and 2009, there was a rise in the rate of evasion, reaching the highest value in 2009, which coincides with the subprime financial crisis of 2008-2009.

4.3 Limitations

In the case of the operating surplus, this is a residual variable within the estimates of national accounts, which makes it less precise.

Information extracted directly from the CTA tax databases is also used for constructing the theoretical collection of the FCIT, in such cases; evasion associated with non-declaration, under-declaration or over-declaration would not be measured by the methodology.

In the case of temporary differences,¹⁶ the method to estimate them is based on the fact that the financial statements are delivered under the Generally Accepted Accounting Principles (GAAP).

Then, the gradual implementation of IFRS norms beginning in 2009 will imply the need to change the methodology for estimating temporary differences as deferred tax information, which is the basis

¹⁶ Corresponds to the differences between financial accounting and tax accounting, for example, those which occurs in depreciation and leasing.

for estimating the concept initially mentioned, is presented in a much more aggregated manner in the financial statements under IFRS.

5. PHYSICAL SPOT CHECK METHOD TO ESTIMATE UNDER-DECLARATION ON VAT SALES

The physical spot check method commonly employed, consists in a visit by an auditor to an enterprise, remaining there throughout the business day, thus encouraging perfect tax compliance. This method has been used by the CTA to measure under-declaration of VAT.

5.1 Methodology

In practice, the method involves a visit of an auditor to an enterprise without notice, informing them of the performance of a “routine” tax control and remaining at the enterprise throughout the business day. However, the real objective pursued with this method is that the presence of the auditor obliges the emitting of receipts for all final sales and ensures information is passed on faithfully from the receipts to the sales ledger, later declaring them on the VAT form. Next, to obtain a measure of evasion, what is done is to compare registered sales during the control period with registered sales from previous periods under similar conditions.

Figure N ° 3
Diagram for Physical Spot Check Method



This method was applied in Chile in late 1996 and mid-1997, considering a sample of about 350 enterprises drawn from the universe of VAT taxpayers who issue sales receipts. Auditors of the CTA applied a ‘physical spot check’ day in each enterprise, in addition to extracting the daily sales information for weeks and months preceding the date of evaluation.

The comparison between the day of visit and previous days “similar” in practice imposed some difficulties, as a high variability in sales data was observed. This problem was addressed in the statistical processing of the data developed by Engel, Galetovic and Raddatz [1998b] to try to overcome these difficulties and obtain adequate measures of evasion.

5.2 Results

The results indicate that in 1996 taxpayers omitted 24.6% of sales to final consumers, with a standard deviation of 4.8%.

Table N° 4
Amount and Tax Evasion rates for Under- Declaration of Sales

Economic sector	Evasion rate¹ (%)	Std. Dev.
Agriculture	5,64	12,44
Wholesale Trade	73,08	7,12
Retail Food Products	12,18	3,53
Retail Non – Food Products	11,61	3,06
Restaurants and Hotels	13,18	4,59
Financial Services and Other Services ²	26,82	3,15
Other Activities	6,74	7,55
All sectors	24,6	4,8

Source: Engel, Galetovic and Raddatz [1998b].

Notes:

- 1 Evasion rate that expresses the amount evaded as a percentage of theoretical VAT debit.
- 2 Various services considering educational, health, entertainment and recreation, cultural and other personal and household services.
- 3 Includes taxpayers who declare under the category “economic activity unspecified or other”

The rate of evasion from this study measures evasion of final sales and is not directly comparable with the rate of evasion which is obtained by the theoretical potential from national accounts, which measures total evasion of VAT, meaning, considering all forms of noncompliance of this tax. Using VAT revenue data from 1996, it’s estimated that by way of under-declaring final sales in the aforementioned year, about \$860 million was being evaded, equivalent to 60% of the total VAT evasion estimated by the method of theoretical potential for that year.

5.3 Limitations

One of the major limitations of this method is the need to significantly increase the sample size, when requiring results with a higher level of

disaggregation, this way it has greater statistical reliability. This causes these methods to be generally quite expensive in auditing work hours, requiring the auditor to remain at the enterprise during the entire business day.

Additionally, due to the randomness of the sample, such audits are not very popular amongst managers and inspectors of the tax authorities, who feel that their work is evaluated directly by the performance of the audit, and therefore they do not wish to use their scarce resources on random audits.

6. NEW SAMPLING METHOD TO ESTIMATE EVASION

The Chilean Tax Administration is currently exploring a new method to estimate VAT evasion in SME's (small and medium size enterprises) which considers giving audit notices to a group of randomly chosen taxpayers. Unlike common sampling methods, the audit to be carried out does not require an exhaustive revision of tax documents to detect the evasion, nor to remain in one place during all business hours as in the physical spot check method and other audit sampling methods which are based on detecting the entire evasion at the moment the audit takes place.

This mechanism to detect evasion is based on research applied in the Chilean Tax Administration in the years 2008 and 2009 which was named "Determinants of VAT evasion in SME"¹⁷. Different communicational messages are sent to selected taxpayers, such as informative, motivational or of the dissuasive type, in addition to an audit notification. The results indicate that taxpayers in these segments immediately react to the dissuasive kind of notification which will increase the probabilities of being audited in the near future and significantly improve their tax payments during the following months after having received the notice.

These results were maintained during the first mass mailing done in the year 2008 as well as in the one of the same characteristics done in 2009. On the other hand, with this method it is possible to detect evasion in sales as well as in purchases, with an emphasis on evasion due to under-declaration of sales, according to what was seen in practice.

¹⁷ Study done in conjunction with Dina Pomeranz, an economist at Harvard University, during the years 2008 to 2009.

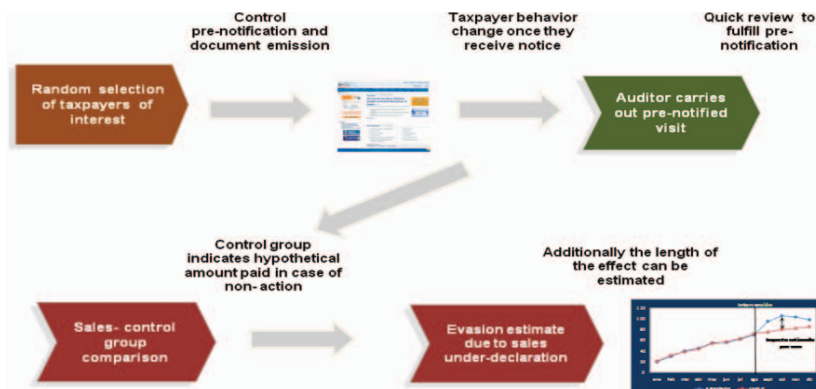
6.1 Methodology

The methodology is based on the random selection of a control group and a treatment group of similar characteristics. Notification of a tax audit to be carried out in the following months is given to the treated group¹⁸ (it refers to a quick control whose aim is to have a certain amount of coverage of SME taxpayers).

Since the tax audit is previously announced, and is later carried out within 2 to 4 months, the taxpayer improves his behavior from the moment he receives the notification, thus improving his tax payments. Due to the fact that the only difference between both groups is receiving the notification and being audited, the increase in payment generated by the notification and the estimate of the VAT evasion can be obtained from the differences by comparing both groups, the audited and non-audited ones.

As the taxpayer knows he will be visited by a tax auditor on site in the short term to review his tax information, this improves his compliance from the date he is notified. Thus, it is possible to have a measurement of the evasion previous to when the taxpayer is visited by the tax auditor and also obtain information about how the behavior changes once he is audited.

Figure N° 5
Evasion Estimate based on Audit Pre-notifications



¹⁸ What matters is to measure the post-letter effect, the ideal condition is to pre-notify at least 1 month before the control action, so as not to affect behavior change for periods where the effect of the letter is diluted.

Consequently, it is possible to have a measurement of the amount that is evaded by the taxpayers who are given notification, from the analysis of their declarations and tax payment before and after having received notification. As a result, a measurement of the evasion tendency by economic sector, geographical location or other disaggregation that is of interest to the tax administration can be obtained.

Also, the frequency of measurement may be greater than that obtained with the method of national accounts, depending on the resources that are available and the desired level of disaggregation.

Note that while a measurement of evasion can be obtained, not all taxpayers will have 100% compliance during this period, which is why it is recommended to apply another method with a greater degree of certainty at the same time, such as the physical spot check method in order to have a measurement of the level of total evasion during this period as a whole, detected in a disaggregated way.

In the case of Chile, the type of review that is applied corresponds to actions performed in the presence of an auditor and registration of documents with the objective of keeping

a certain level of taxpayer coverage, mainly SME's, which also allows to meet the goals of onsite verification established for the period, without allocating additional tax auditing resources in order to obtain the measurement (it is only required to reschedule the visit to the taxpayers).

6.2 Results

At present the Chilean Tax Administration is at the stage of gathering and processing information to obtain the first estimate of VAT evasion through this method, which is why it is not possible to present the final results.

The results include:

- An estimate of the evasion due to under-declaration of VAT sales at a national level broken down by region and economic sector.
- An increase in collection due to the post-notification behavioral change and post-tax audit, in the notified taxpayers as well as in the VAT chain¹⁹.

¹⁹ The study, "Determinants of Evasion of VAT in SMEs" indicates that sending a pre-notification has a multiplier effect in the VAT chain, generating a change in behavior of the suppliers of those pre-notified taxpayers.

- The processing of knowledge regarding which groups are most reactive and potential tax evaders in order to focus and guide the actions for future onsite verifications.

It is important to note that the audit should be performed in the notification period, so as not to affect the credibility of the effectiveness of the tax administration, by indicating something that later will not be carried out.

Some key aspects of its implementation are:

- The selection of taxpayers to be analyzed, depending on the interests of the TA.
- Determining the number of taxpayers to be audited so that the detected differences are statistically significant.
- The random selection of taxpayers to be visited, generating a control and a treatment group as identical as possible, so that the difference in tax payments is produced only by virtue of being notified and audited.
- Ensure that random selection is respected in the implementation.

Note that this methodology works best in certain contexts. For example, its effectiveness and applicability will be lower if taxpayers have a low level of voluntary compliance, the tax authority lacks credibility or corruption limits the scope of audits, thus generating a real threat to taxpayers. On the other hand, the implementation will be easier and more effective when the tax authority has a great reputation, instills trust and its audits generate a feeling of control and detection of evasion figures.

7. CONCLUSIONS AND RECOMMENDATIONS

Evasion rates in 2009 determined from the theoretical potential method are approximately 18% in the VAT and 31% in the FCIT, reaching an evasion for these items of 3.025 billions of Chilean pesos for that year.

The total amount that was evaded on those taxes represents 23% of the total tax collection for that period and 3, 4% of the GDP for that year. This figure is strongly influenced by the economic crisis that affected Chile at the end of 2008 and the middle of 2009, which caused an increase in tax evasion during those years, mainly VAT. This highlights the importance of investing more effort to have estimates of evasion broken down by taxpayer type, which will allow an improvement in guiding the auditing actions for that particular tax.

Before the crisis, Chile had an outstanding level of tax compliance worldwide. The increased levels of tax evasion during recent years, has required the CTA to take bold action in order to control the level of compliance and promote the use of technological tools to increase the use of electronic invoicing and therefore have greater control over the tax documents that are issued.

Although estimates of evasion generated with the theoretical potential method have a number of assumptions and limitations, the application of these methods is useful to have a measurement of the evolution of evasion through time, which can be subsequently compared with estimates from other tax administrations based on the same method.

Due to the limitations of timing and level of aggregation, the estimates which were obtained with the theoretical potential method can be complemented with other measuring methods, such as taxpayer surveys, sampling type measurements or others, which will allow to calculate disaggregated estimates, thus, focusing tax auditing strategies on higher risk taxpayers.

Although the sample estimation methods, such as the physical spot check have the advantage that when applied properly, estimates with the above mentioned characteristics may be obtained, these are not very popular due to the randomness of the sample and the high level of resources that are required in auditing work hours. For these reasons, the CTA is applying a new sampling method, based on tax audit pre-notifications, which will make it possible to obtain disaggregated estimates of evasion without the disadvantage of other methods which are based on detecting the highest amount of evasion at the moment that the tax audit takes place. On the other hand and according to what was seen in practice, this new approach has the added benefit of generating an increase in tax collection due to better compliance from the suppliers in the VAT chain.

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METHODOLOGIES FOR ESTIMATING INCOME TAX AND VAT EVASION

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Contents: 1. Introduction. - 2. Methodology. - 3. Analysis of results. - 4. Actions taken by the administration to reduce evasion. - 5. Conclusions.

1. INTRODUCTION

For the Tax Administration estimating the magnitude of evasion is of permanent interest. In order to assess its performance as control agency and consequently, to guide its control strategies, it is important to know how taxpayers are complying with their tax obligations.

It is essential to have figures on the level of tax evasion shown by the economy. The purpose of this report is to provide a synthesis of the work that has been carried out in Paraguay in recent years to measure evasion in the main consumption tax, presenting their results in order to contribute to current and future discussion of the topic.

The purpose is to see the evolution of the gap regarding the years 2007, 2008, 2009 and 2010, from the calculations, allowing measuring the potential effects of the SET actions on the current reforms for a better VAT administration.

The methodology applied for defining the baseline indicator "Tax Gap Evasion of VAT", which took the result of the gap calculated for the year 2007, by using empirical data and applying econometric calculations to achieve the results, was the same for the years 2008, 2009 and 2010. Note that these measurements have been performed since 2007.

The following is a summary of the methodological steps that are required for this calculation, the purpose is to provide an overview of the calculation process, assuming that there is no restriction in terms of the information required to prepare the corresponding data base. This is not only educational, but also a practical guidance for public

officials as to the various steps that should be followed for Vat tax gap future estimates, understanding that there are several methods for the measurement. However, this was the chosen one to be adapted to the structure and variables of this tax in Paraguay.

2 METHODOLOGY

- First:the fundamental variables that should be taken into account to calculate thepotentialannual collection.
- Second:given this potential collection, it is then possible to estimate the difference between the potential tax and the real taxcollected,for the corresponding year, which measures the collection efficiency.
- Third:given the efficiency indicator, its complement, its inefficiency, measures the tax gap.

The VAT tax potential of each sector of the Paraguayan economy for the years 2007, 2008, 2009 and 2010 is calculated, taking as example the economic activities of the country's productive structure, subdivided in 331 and 46 economic sectors, being the sources:

- National Accounts ofParaguay,which figures provide information on the Matrix Input-productof four sub-matrices: matrix of supply, intermediate demand, factorial remuneration and matrix of final demand or use. It bases its calculations primarily on the information from the matrix of Supply and Demand.
- Tax Statistics of theSET,from the taxpayers returns on VAT payments).

Calculations have been applied for the Matrix of supply with totals for each of the sectors; once the calculation was performed with the corresponding adjustments, for gradually arriving to the VAT tax base; subtracting taxes on products and the value of exports.

The last methodological adjustment to the total supply is the exemptions for certain goods and services, which by law are not required to pay VAT. Therefore the values of their products should be excluded from the potential tax base; the results of applying the index or coefficient of taxability are the last step in determining the taxable base for the VAT.

¹ *The classification of 33 sectors: is the United Nations International Standard Industrial Classification (ISIC).*

Once the tax base is obtained, the tax rate is applied, ten percent (10%)², and it is replicated in this report in order to determine the potential revenues from '07 to '10.

Once the potential revenues by sector are obtained, we have proceeded to determine the VAT tax gap for the years '07 to '10, defined by the difference between the potential collection and the real collection.

3. ANALYSIS OF RESULTS

The results indicate an increase of approximately eleven points in the efficiency of collection of VAT from the period '07-'10. In '07 collection efficiency was 54.74%, increasing to 66.36% in 2010.

This improvement in the collection is a reduction in the evasion gap of 45.26% in '07, to 33.64% in '10 (Table 1).

TABLE 1

TAX GAP Comparison years: 2007, 2008, 2009 and 2010 COMPARISON USING THE SAME METHOD * in millions of Guarani					
	Concept	2007	2008	2009	2010
A	Estimated VAT (ratev10%) ^{1/}	6.388.195	7.800.072	7.515.802	9.028.849
B	Collected VAT (with 10% rate) ^{2/}	3.496.787	4.409.139	4.399.502	5.991.694
C = (A-B)	Absolut difference (Tax gap)	2.891.408	3.390.933	3.116.300	3.037.155
D = (B/A)*100	Percentage efficiency of Collection	54.74	56.53	58.54	66.36
E = [1- (B/A)]*100	Percentage Tax Gap (Evasion)	45.26	43.47	41.46	33.64

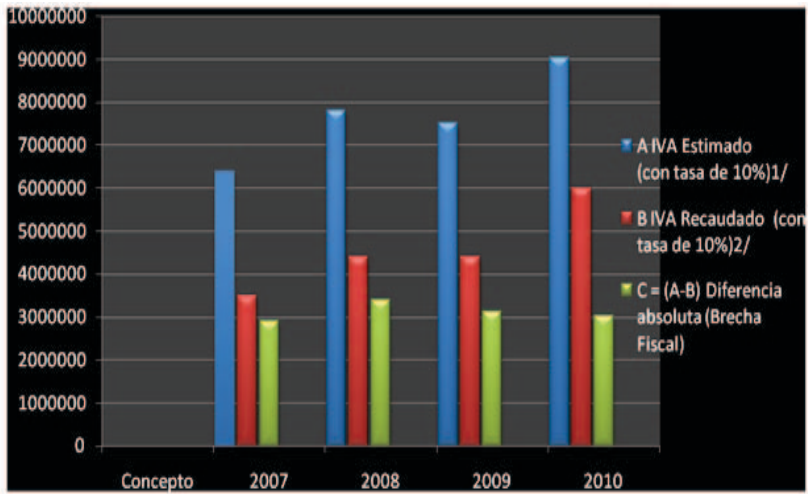
* The same methodology and the same coefficients were used for the '07, '08, '09 and '10.

1 / Estimated value using the figures of National Accounts of the Central Bank of Paraguay

2 / Real value supplied by the Sub-secretary of State Taxation, Ministry of Finance

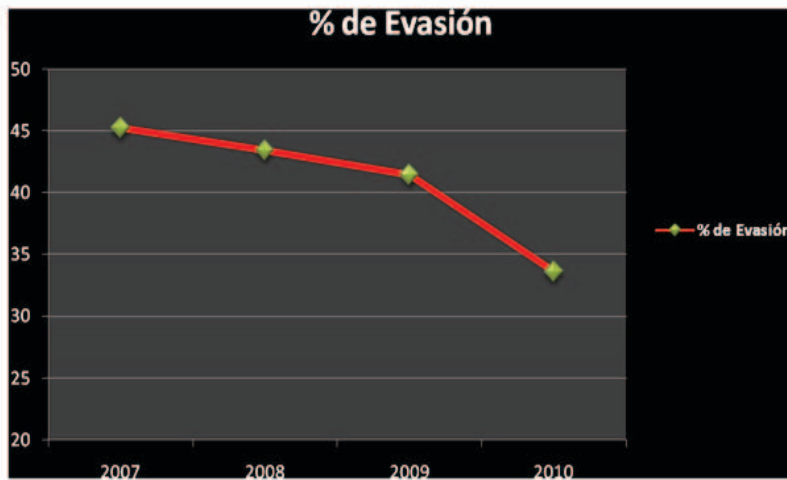
² It takes into account that there have been factors that reduce the potential collection by reducing rates of certain goods and services from 10% to 5%. At the same time it recognizes that there have been factors that have increased the potential collection due to the elimination of the single tax / minimum to certain economic activities. It is estimated that the outcome of these two opposing effects has left approximately the same rate - 10%. For purposes of calculating the indicator of the evolution of the gap it is assumed that the rate of 10% has remained constant.

TOPIC 2.3 (Portugal)



SUMMARY EVOLUTION OF EVASION FOR '07 to '10

Year	Evasion %
2007	45.26
2008	43.47
2009	41.46
2010	33.64



4. ACTIONS TAKEN BY THE ADMINISTRATION TO REDUCE EVASION

Consistent with the major policy reforms, in 2006 the process of reengineering the Tax Systems started, covering the design and implementation of a new information management system, adequacy of the organizational structure and human resources ending in 2007.

With the new implemented model, the SET focused on the decentralization of services, simplification of processes, provision of technology to serve the taxpayer, and performed and diffused campaigns to taxpayers and citizens in general.

The SET effort is oriented towards a modern and appropriate management of new paradigms, in order to convey credibility, collaborate with the fulfillment of the role of state and supporting the development of the country.

In this sense, it has been implementing control measures and administrative measures to reduce evasion, and in regard to Value Added Tax has exercised massive control as work notices, preventive controls such as verification of registration with the RUC or issuance of tax documents, executive controls based on intelligence work in situ with the application for suspension of commercial activities and implementing inventory controls, product verification and control of crossings of information provided by taxpayers or third parties, and the implementation of specific control and integral processes, such as:

- Omitted taxpayers in Informative Affidavits (Purchases, Sales, withholds) with VAT Clearance Form 120 or VAT withholds Form.122, basically applying:
 - Notification
 - Requirement for documentation
 - Verification or control process
 - Determination of fiscal adjustment or control point, from the verifications or controls made
 - Application of penalty for violation - maximum fine
 - Blocking the RUC
- IMAGRO3Taxpayers in terms of VAT tax credit, basically applying:
 - Verification or control process, focusing on the use of tax credit for VAT in the assessment annual tax.
 - Request for correction of affidavits with reduced VAT tax credits without documentary support

3 *Income Tax on Agricultural Activities.*

- Tax assessment
- Penalties - fines and sanctions

- Taxpayers generally constituted as Information Agents - Informant Hechauka⁴, applying basically
 - Crossing information reported through the Client Software Hechauka (System of Tourism, Retention, Purchasing and Sales) and the data contained in the Tax Management System Marangatú⁵.
 - Verification or monitoring process for cases in which inconsistencies were detected.
 - Request for correction of affidavits
 - Penalty for violation - maximum fine
 - Blocking the RUC

- Taxpayers reported or detected inconsistencies reported by other areas of the SET or product of information crossing
 - Crossing of the information held in the Tax Management System Marangatu. and documentation required
 - Verification or control process.
 - Request for correction of affidavits
 - Tax assessment
 - Penalty for contravention
 - Blocking the RUC

- Performing Deterrents, Persuasive and Executives procedures
 - Field control of the entry of the RUC and the issuance of vouchers
 - Verification Enabled Printers in situ within the framework of stamped documents
 - Control of Goods in storage and in transit
 - Suspension of Activities - Suspension order released by Judicial Authorities

- Implementation of specific and integral control in the category of Large Taxpayers, belonging to certain sectors such as major exporters, benefited from the Tourism regime and Gaming dealers.

- Signature of the INTERAGENCY COOPERATION AGREEMENT BETWEEN THE SUB-SECRETARY OF TAXATION (SET) AND THE DEPARTMENT OF MONEY OR PROPERTY LAUNDERING PREVENTION (SEPRELAD), aiming to establish relevant

⁴ Software designed by the SET to be delivered free of charge to persons required to report, in order to facilitate the preparation of reports and ensure the best possible quality in receiving information.

⁵ It is the Tax Management System Website that the SET offers taxpayers and allows them to update their data, submit affidavits, check their account status, make payments, apply for refund of tax credit eligible for special regimes uses, among many other options.

guidelines to effectively and efficiently exercise their functions based on coordination, cooperation and common interest in fighting the scourge of money laundering or terrorist financing and other related crimes.

- The Inter-institutional Resolution RG No. 36 and the Resolution SSBB No. 157 "Regulating the control of institutions governed by Law No. 861/96" General Banking, Finance and other credit institutions "under Art.27 of Law No. 2421/2004 "Administrative Reorganization and Fiscal Adjustment" and the agreement between the Ministry of Finance and the Central Bank of Paraguay.This regulation has implemented control tasks to the banking sector regarding compliance with their tax obligations.
- Establishing precise requirements and implementation of a detailed analysis of Tax Credit refunds, giving greater certainty of the truth of the requested credits.
- The requirement for submission of the Tax Compliance Certificate for the completion of certain formalities (obtaining financial credits, sale of movable and immovable property, business license, passport), applied since 2009 contributes to the formalization of the economy through the implementation of tax liabilities.
- The designation of Taxpayers as Withholding Agents, which is practiced on VAT, they are designated based on determination of objective criteria and others enter automatically; this situation is referred in the regulation, such is the case of applicants for tax credit refund for export, among others.It is important to mention, that these are configured as Information Agents - Hechauka Informant and they are required to submit all their returns only via internet. .
- It has been established in the tax law itself the obligation to make a tax audit and provide the administration with a report, establishing as mandatory those with a turnover equal to or greater than 6,000 million Guarani in the year.
- With the enactment of Decree No. 238/08, the possibility of using the tax credit for the payment of VAT IMAGRO for large buildings was eliminated. Before the purchases were admitted as tax credit against the tax paid.
- With respect to the collection management, Collection Programs have been implemented covering all Tax Offices, which are in line with central government, thus achieving increased coverage and consequently the increase in collection management. The SET has

achieved in 2011 the ISSO 9000:2008 Certification in Collection Management.

- Betting on the decentralization of services to the taxpayer, the SET has opened regional offices in the countryside (Concepción, Mission, Encarnación and Ita) and has improved infrastructure and modernized with new equipment and audiovisual (Itapúa, Concepción, Guairá Ñeembucú and Amambay)
- 16) From 2006 to 2011 the SET website had 8,500,000 visits; the service had a large growth from 2008 reaching more than 2 million visitors a year.
- 17) The taxpayer has been provided with computer services, which use has been voluntarily and for mandatory use under regulations. There are services to be performed within the SET website without needing a password, as well as the access, to the income tax management system through a password making possible the submission of tax returns, tax payments, transfer of tax credits, and better control over their account statement. Since its implementation more than 60 000 Access Codes have been provided.
- 18) By the end of 2011 a total of 612 thousand taxpayers have joined the RUC. There are 141 000 taxpayers more than in 2008, which was a total of 471,518 people.

4. CONCLUSIONS

The calculation methodology indicates that VAT evasion by the formal sector of the economy is less than half of the potential collection (33.64%) of the tax.

In Millions of Guarani this percentage is equivalent to Gs.3,037,155 (approximately \$ 706.3 million dollars)⁶. Undoubtedly the opportunity cost of these annual resources that are not collected, in terms of investment in social services, e.g. health and education, is significant.

The interest and the ongoing efforts of the Government of Paraguay through the Ministry of Finance and in particular the SET, with the support of bilateral and multilateral development are clearly justifiable.

The numbers certainly indicate a start in reducing the evasion gap, there is no doubt that this effort must continue, along with planning an appropriate use of new fiscal resources.

⁶ using an exchange rate of USD \$1 = Gs. 4300

DESIGN OF PLANS FOR CONTROLLING EVASION AND INDICATORS OF MANAGEMENT RESULTS

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Federal Administration of Public Revenues
(Argentina)

Contents: 1. Introduction. - 2. Evasion control plans. - 3. Planning cycle. - 4. Management result indicators. - 5. Conclusions

1. INTRODUCTION

The purpose of this presentation is to comment in general the way in which the Argentinian Tax Administration designs its plans for controlling evasion and the way in which it develops the management result indicators.

As it is known, over a decade ago, our country adopted the single agency model, which allows it to centralize the information on the taxpayers and those responsible for the different national taxes, the control of foreign trade and the control and registration of labor in a dependency relationship, as well as independent work, as regards social security contributions.

Likewise, this organization model facilitates the Treasury-taxpayer/users of customs services/employers relationship, by means of a one-stop shop.

As will be seen in the presentation, planning for avoiding fraud and informality calls for covering and coordinating the long term (strategic plans) with the short term (management plans).

In turn, the measures adopted for achieving the objectives basically have two goals: 1) facilitating compliance to taxpaying citizens and 2) the control and effectiveness measures.

We will also show how achievement of objectives sought depends on merely operational actions, as well as the development or promotion

of regulations that may facilitate the Treasury's action or remove the obstacles that render such action difficult.

Thereafter, the process for preparing the plans, the tools used and the management control mechanisms will be described.

2. EVASION CONTROL PLANS

This involves the series of measures or actions promoted by the collection entity for combatting evasion.

2.1. Methodology

After determining the need for developing a plan, the information support format for receiving the various proposals from the areas is designed and developed at the central level. Following receipt of the proposals, they are prioritized in accordance with the issues raised and their timeliness. They are finally approved at a plenary meeting of the high level authorities, following a discussion session with the technical areas of the organization.

2.2. Coordination

The various operational and technical areas of the Organization are summoned by the central level to make their proposals.

- Design of the information support format.
- Prioritization of proposals according to their timeliness and subject matter.
- Consideration of similar issues.
- Discussion of proposals with the technical areas.

2.3. Proposals

The operational and technical areas may generate their proposals through:

- The decision of the top level authorities.
- Bottom-up Methodology.

2.4. Approval

- Plenary meeting of top level authorities.
- Presentation to Congress of proposals for amending the laws.

3. PLANNING CYCLE

3.5. Long term – AFIP Strategic Plan

The AFIP 2011-2015 Strategic Plan is the second in its series, prepared by the Organization on continuing with the long term planning process begun with the 2007-2010 AFIP Strategic Plan.

This document provides for the institutional mandates and guidelines that will direct AFIP's activity during the five-year period from 2011 through 2015, namely:

- Mission
- Vision of the Future
- Values
- Policies
- Strategic Objectives
- Strategies

The practical application of these long-term guidelines is found in AFIP's Annual Management Plans, through the activities scheduled therein: management indicators and initiatives for improvement.



3.1.1 The AFIP 2011-2015 Strategic Plan

3.5.1.1. Statement by the Federal Administrator

AFIP is the institution in charge of managing the tax system and executing the tax policy determined for the National Government. In this sphere, it has consolidated itself as a dynamic and influential actor in generating a tax atmosphere that favors the formal economy and registered employment, while at the same time affording greater security to foreign trade.

The extensive managerial capacity, intensive application of technology, the efficient use of information and training of our human resources, has allowed us throughout these recent working years to constantly and uninterruptedly increase the State's resources.

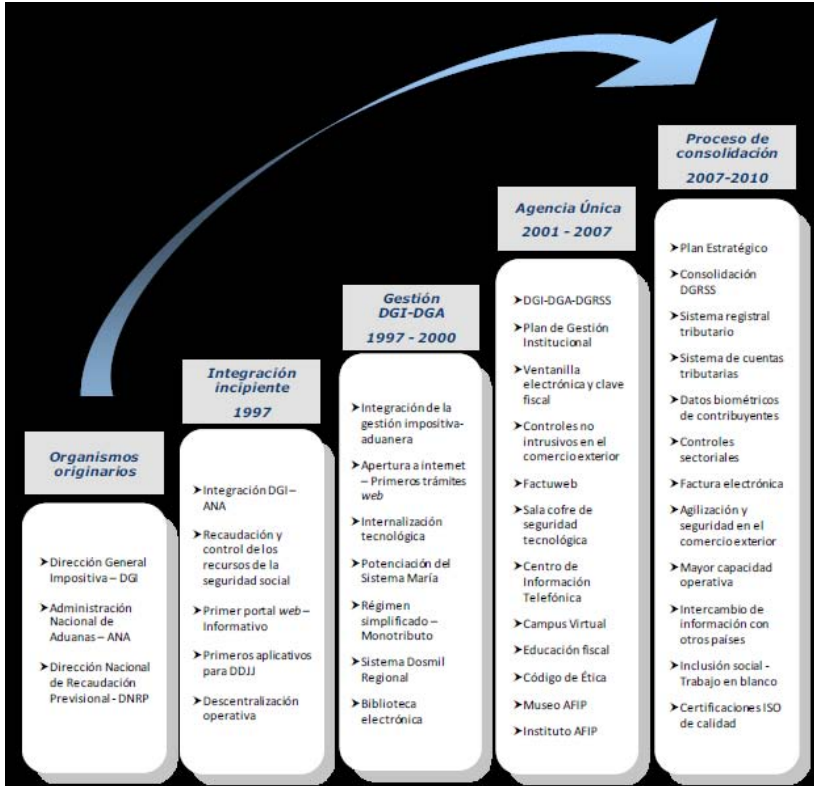
Control actions have been strengthened and tax compliance has been facilitated and induced through the implementation of specific projects that have in turn generated economic development and social inclusion.

In keeping with its strategic vision, AFIP will continue to use information and communication technologies, as well as implement systems that may facilitate voluntary compliance and the collection of taxes. A planned scheme will provide the foreseeability framework for achieving the proposed objectives for 2011-2015 through the implementation of public policies of general interest and the allocation of the necessary tax resources.

To this end, we shall continue to strengthen the Organization for combatting evasion and expanding the taxpayer base and controlled operations. We endeavor to arrive at a more active examination that may allow for increasing the number of taxpayers subject to the payment of taxes, generating greater formal employment and ensuring transparency in the exchange of goods and services with our partners abroad.

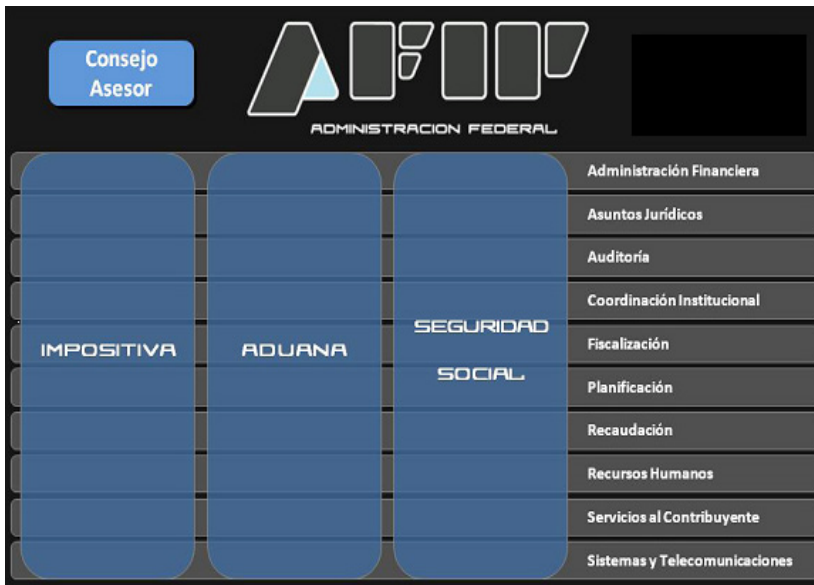
Our challenge and greater responsibility is to assist the National Administration in consolidating a fair, competitive and equitable economic growth model that may be sustainable through time.

3.5.1.2. Our recent history



3.5.1.3. Our organization

AFIP operates in three specialized areas: the General Directorate of Customs -DGA-(Spanish acronym), the General Directorate of Taxation –DGI (Spanish acronym), and the General Directorate of Social Security Resources –DGRSS- (Spanish acronym), through 664 operational units and sites that include, regional directorates, agencies, customs, districts, receiverships, examination divisions, fiscal warehouses, free zones, ports, airports, border crossings and service centers located throughout the country. In each area, AFIP has developed specific units for managing relationships with the taxpayers and operations requiring special attention, such as large taxpayers, large foreign trade operators, international taxation and exporter refunds.



The activities that are central and common to the entire Organization serve as basis for preparing the working programs and procedures in the different spheres. At this level, the collection, examination, legal affairs and taxpayer service activities are determined.

Also, management follow-up is planned and carried out; human, technological and financial resources are managed and technical and administrative coordination likewise takes place.

3.1.1.4 Our institutional proposal

- Vision

To consolidate itself as an institution of excellence oriented toward generating a tax atmosphere that may promote the formal economy, registered employment and foreign trade security.

- Mission

Manage the application, collection, control and examination of national taxes, social security resources and foreign trade; thereby promoting voluntary compliance, economic development and social inclusion.

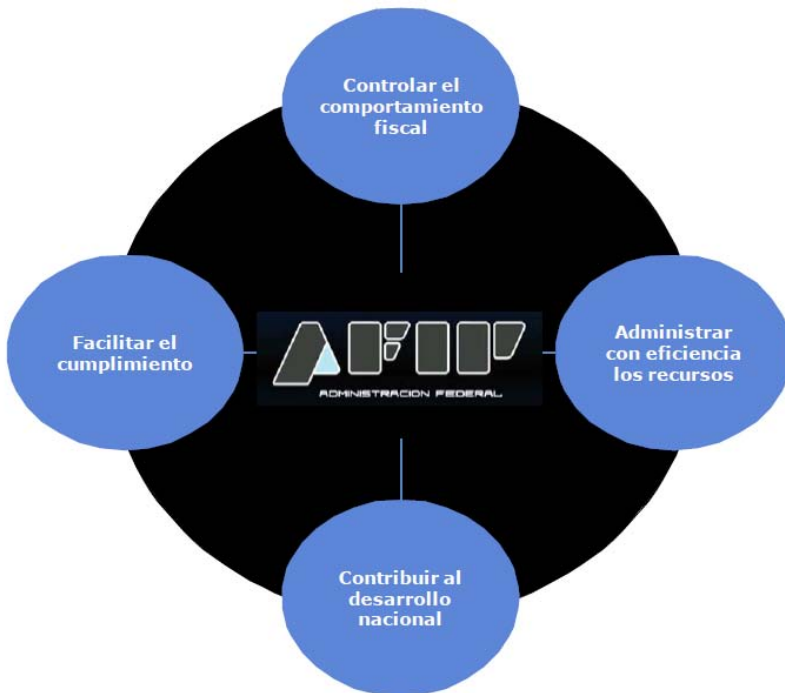
-
- Values
 - Legality
 - Integrity
 - Service vocation
 - Professionalism
 - Proactivity
 - Social responsibility
 - Values

 - The fundamentals of our work
 - Promote compliance with the tax laws
 - Strengthen the relationship between the State and society
 - Promote the integration of institutional management networks
 - Guide the treasury-citizen relationship toward Internet
 - Facilitate operations within the framework of legal security
 - Strengthen operational capacities of the specific areas
 - Add value to every daily task
 - Promote human resources development as the basis of knowledge
 - Strategic use of the information available

 - Our plan

In recent years, there has been resolute progress in the operational, administrative and structural reorganization of the Entity to generate appropriate working conditions for implementing the control and facilitation model that is proposed in AFIP's 2011-2015 Strategic Plan. The strategic orientation provided in this plan will lead to a qualitative differentiation, not only in terms of collection, but also in the quality of the services offered to the taxpayers and the progressive reduction of the compliance cost.

The four strategic objectives of the AFIP 2011-2015 Strategic Plan summarize the priority areas wherein the Institution will focus in the coming years, in order to take a qualitative leap in the services offered to the community and the State, through effective control and adequate assistance, as well as internal excellence processes and a synergic interrelationship with the rest of the economic and social players.



The strategies linked to each objective will be displayed in the successive annual management plans, which include the necessary and possible interventions within the operational action framework of the country's political-economic reality.

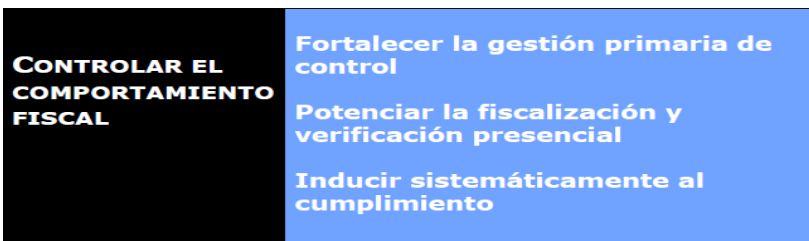
3.1.1.5 Our strategy

The proposed objectives for 2011-2015 reinforce the priority action areas wherein AFIP will focus its efforts. Through the efficient administration of its resources and the possibility of exercising a positive influence within the national context, the Organization will strengthen its control and service capabilities.

In recent years, AFIP has achieved a distinguished institutional position resulting from the application of its control policies and the expansion of the compliance facilitation tools.

The treasury's relationship with the community will continue to improve, following greater interaction and communication and a more transparent management with the citizens' participation.

The efforts devoted to establish a strategic framework of cooperation and exchange of information and experiences with national and international organizations, have complemented and contributed to promote the government's national development program.



AFIP must control compliance with the laws that regulate the tax system, thereby contributing to comply with the principles of justice and equity.

To counteract behaviors that may imply noncompliance with the law, AFIP designs and applies dissuasive and corrective measures that may increase the risk of detection and effective sanctioning of illegal actions, in order that voluntary compliance may always turn out to be the most attractive option.

Thus, the priority activities are those aimed at preventing informal operations, concealment of the taxpaying capacity and fraud.

Accordingly, regulatory, procedural and technological instruments will continue to be developed for the double purpose of inducing improved compliance and having available mechanisms for the precise and timely detection of deviations that may, in turn, allow the application of direct control actions.

Structural and systematic measures leading to increased tax compliance, as regards the disclosure of the taxpaying capacity and the correct filing and payment of tax obligations will be further strengthened in the coming years.

Strengthen primary control management

- Inducing compliance

AFIP minimizes delinquency and noncompliance by implementing exhaustive control actions on the obligations to file and pay taxes.

- Controls automation

The inclusion of all activities and processes in the Tax Registration and Tax Accounts systems is promoted, in keeping with the principle of controls automation, which is aimed at eliminating the discretion inherent in manual processes.

- Primary control of obligations

The processes involving information analysis and the selection of operations to be verified are improved, together with an increase in the control capacity for offering solutions that may guarantee promptness and operational effectiveness, given the increased volume of foreign trade.

- Technology applied to control

The use of nonintrusive controls, increased territorial presence through new control posts and the implementation of real time remote follow-up of customs operations and movements constitute one of the pillars of control actions.

- Border control

The use of instruments allowing for controlling the tax situation of players and sectors involved in the new commercial and working modalities is promoted, with electronic commerce, the new financial

and operational intermediation figures, as well as tax and social security contribution havens being some of the most relevant ones.

- Electronic commerce

Within medium term, control will be strengthened by covering a greater universe of operations and obligations, endeavoring that each action will be concluded with the effective correction of noncompliance that originated them, in addition to a change in taxpayer behavior.

- Studies and research works

Based on the efficient use of the information available, studies and research works are carried out in greater depth for completing the control cycles on the various segments and activities.

- Greater control coverage

The development of systematic and specific control mechanisms that may minimize possible criminal, evasive and avoidance behaviors will continue to be a strategic tool for controlling taxpayers and activities showing a greater trend toward informality.

Promote face-to-face examination and verification

- Greater control universe

The promotion of tax compliance and prevention of fraud and evasion call for developing strategies that may complement the application of primary controls by carrying out flexible face-to-face verification and examination activities, capable of adapting to the continuous changes of the context.

- Dynamic examination actions

The integral and joint application of the various types of examinations allows for analyzing and investigating complex fraudulent maneuvers carried out by economic groups, related companies and tax and trade auxiliaries, among other players that comprise the global taxpayers.

- Sectorial studies and profitability analysis

The organization continues to carry out international taxation research and control tasks, in keeping with the international standards and on an equal basis with other tax administrations.

- International taxation

The sectorial economic studies, the analysis of the value chains and the disclosure of the profitability achieved by each of them, is one way of detecting evasion niches and activities, wherein the control must be strengthened in order to render transparent the commercial operations and serve as basis for guiding the Organization's verification actions.

- Registered labor

The defense of registered employment and combating the evasion of social security contributions are priority issues in active social inclusion policies: a nonregistered worker is a citizen deprived of the full exercise of his rights, even though he may contribute his work to the development of an activity.

- Information exchange

There is an ever stronger practical application of information Exchange and operational collaboration agreements between AFIP and other organizations that may lead to detecting significant cases of evasion in sectors of great relevance through the efficient use of shared resources.

Systematic induction to compliance

- Fraud prevention

The promotion of tax compliance and the prevention of fraud call for continuing to promote activities in the various management spheres that may lead citizens and businesses to improve their compliance.

- Unified register

AFIP generates integrated tools for the tax, customs and social security sphere that may allow the reliable identification and registration of players and operations.

- Special registration mechanisms

Measures of a structural nature are applied and aimed at establishing favorable conditions for executing AFIP's activities which do not require the use of direct examination resources. They involve the issuance of specific regulations and the implementation of systematic

preventive instruments that may discourage and render difficult irregular behaviors.

- Transparency of information

Among other modalities, special mechanisms, that complement the existing ones, are established for identifying and registering taxpayers and others responsible; additional requisites for obtaining benefits are imposed; different withholding and collection systems are applied and specific tax treatments are given, according to the behavior patterns.

- Knowledge of the taxpayer, activities and operations

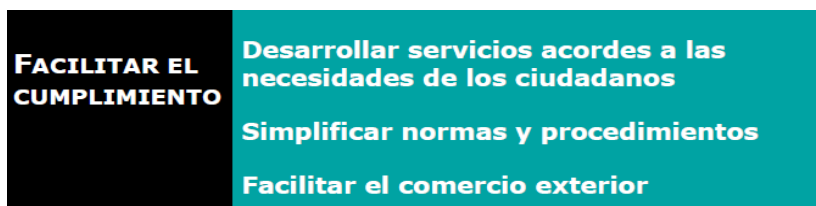
AFIP expands the implementation of computerized tools, for which it will make available to those interested the information relative to their tax, customs and social security situation.

- Risk management

Through the intensive use of technology, strategies will be developed for capturing and processing large volumes of data from different sources. Risk matrices will be generated as managerial principle, in order to use the information available to segment taxpayers and apply selective controls.

- Customs selectivity

Control actions against drug trafficking, trademark fraud, noneconomic prohibitions and under-invoicing will continue to be effectively and promptly applied.



AFIP must ensure compliance with the laws that comprise the Argentine tax system, within the framework of equality and transparency. The complexity of the rules and increasing dynamism of society require positive interactions for effectively facilitating compliance with tax, customs and social security obligations at the lowest possible cost.

A priority factor in achieving this objective is to adequately become aware of the characteristics and needs of the citizens, businesses, society sectors and the economy with whom AFIP interacts.

For this reason, it is necessary to increasingly approach the community and design mechanisms for promoting communication, assistance and services, in order to disseminate the actions for facilitating interaction, rendering the processes transparent and disseminating the results to, in turn, consolidate the institutional image in society.

Develop services in keeping with the needs of citizens

- Uniformity of criteria

The service rendering model is strengthened by taking into account the specific tax, customs and social security needs of each of the business areas.

- Specific assistance

New lines of collaboration are established with taxpayers having special characteristics, because of their economic importance and the complexity of operations they carry out, thus resulting in bring them ever closer as well as in a smoother relationship.

- New means of assistance

Likewise, the Organization continues to develop new means for assisting and communicating with the community, by offering additional alternatives to the regular channels that brings it close to the Administration.

New customs offices are being established at different points in the country to facilitate foreign trade operations.

- New channels for communicating with the taxpayer

The Organization continues to be in the forefront as regards the intensive use of new communication and information technologies for adjusting services in accordance with the taxpayers' profile.

- Technological assistance applications

The national policy regarding e-Government is followed up, in order to efficiently manage the State's resources, facilitate the citizen's compliance and guarantee transparency in public management.

- Virtual counter

The taxpayer and custom user will continue to be provided a better service through the virtual counter, thereby facilitating such procedures as the filing of returns, payment of obligations, registration of customs operations, inquiry to the Tax Accounts System, registration of new workers and the control of social security contributions.

Simplification of rules and procedures

- Transparency

One of the main institutional objectives is to contribute toward structuring a society aware of its tax duties and to assist citizens in complying with such duties with the greatest convenience and security possible, based on the principles of transparency and mutual trust.

- Reduction of compliance costs

The Administration promotes the development of tools that may allow for reducing the costs incurred by citizens in complying with their tax obligations.

- Standard assistance and service criteria

To combat noncompliance, actions are implemented for strengthening tax awareness and clear and simple rules and procedures for all sectors of society are developed.

- Tax awareness

Orientation toward Internet in the relationship with citizens is strengthened, in order to minimize personal visits to the AFIP offices and likewise, new mechanisms are being developed for facilitating procedures through the web.

- Standardization of processes

With the purpose of facilitating and rendering possible compliance with the law, the Organization is improving the tools that currently allow taxpayers to make their own assessments.

- Accessible information

The one-stop shop concept continues in force, thereby allowing citizens to process with the Administration tax, customs and social security contribution issues through a single teller, in a faster and more efficient manner.

- Facilitating the payment of obligations

The Organization continues the process of consolidation of the treasury-citizen relationship by ensuring transparency in management through the availability of information for everyone and stimulating social participation by allowing access to information and promoting citizen control mechanisms.

Facilitating foreign trade

- Nonintrusive controls

International trade is one of the pillars of the country's economic development. AFIP's actions follow its growth, facilitating the legal exchange of goods and services.

- Reliable operators

The systematic incorporation of technology and adaptation of processes continues, in order that citizens may reduce costs and time in their operations, to thus contribute to international trade in keeping with the guidelines of the World Customs Organization.

- Security in the logistics chain

In the process of transformation underway, in order to render the customs service more flexible vis-a-vis the changes in context, efforts will be devoted to strengthening the figure of reliable operator.

- Information exchange

The customs service continues to be developed and consolidated through the modernization of the computerized systems for ensuring transparency and quality of processes.

- Institutional agreements

Aware of its role in the national economy, Customs will continue to strengthen its relationships with the different sectors and users of the customs service, by coordinating activities that may ensure the foreign trade logistic chain.

- Regional integration

AFIP continues to incorporate nonintrusive control tools and train its human resources in order to arrive at a more efficient customs management, by avoiding trademark fraud and drug trafficking and preventing the entry of forbidden elements and contaminating substances.

Operational and procedural relationships with other countries will be further strengthened, by supporting the regional integration processes.

ADMINISTRAR CON EFICIENCIA LOS RECURSOS	Desarrollar procesos de calidad
	Potenciar las competencias de los recursos humanos
	Utilizar los recursos eficientemente

AFIP is permanently working in the development of its human resources. The organization currently has a highly qualified staff that will be further trained, specialized and developed.

Environmental changes require that the Organization be continuously adapting itself to the new situations. Therefore, work will continue for developing an internal flexible and adaptable structure.

In accordance with the governmental policy, financial, material and technological resources are managed within a framework of transparency and austerity, thereby endeavoring to ensure their responsible and efficient use.

In the coming years, the Administration will focus on improving quality and achieving excellence in activities linked to its three areas of business –tax, customs and social security contributions, as well as in the central processes that permanently contribute to the operational tasks.

Developing quality processes

- Simple procedures

AFIP focuses its attention on the consolidation of the internal management model which has been in the process of development for several years.

Progress is being achieved in the standardization, harmonization and simplification of the rules and internal procedures.

- Strengthening of the internal control environment

The institutionalization of an integral internal communication policy is strengthened, so that it may allow the interaction of the Organization's various business and support areas for the purpose of developing processes validated by all institutional levels.

- Maturity models

The institution is working hard in the implementation of processes that may be carried out under quality parameters, so as to ensure managerial effectiveness and transparency. The integral self-assessment of processes is being promoted through the analysis of maturity models that may allow for identifying actions aimed at a continuous improvement organizational strategy.

- Continuous improvement

The systematization of a risk management methodology is being promoted. It is based on international standards for identifying critical factors and prioritizing their mitigation through the establishment of controls.

- Reliability of the information

Creating awareness among human resources with respect to the risks inherent in the use and access to information stored in the organization will be a working guideline for the coming years.

- Internal communication

The establishment of new standards in the data structure promotes the protection of the resources and the reliability of the information.

Controls will be intensified and the quality of activities, circuits and systems will be ensured to improve and add value to AFIP's operations.

- Corporate governance

Actions are being carried out for strengthening corporate governance; in particular, the formalization of operational and support procedures and the systematization of human resource performance measurement, with a view to improving the quality of services offered to citizens.

Strengthen human resource competencies

- Permanent training and development

AFIP endeavors to permanently adjust its staff and competencies to the managerial needs.

The entry of staff is planned annually, and training and induction activities are carried out for promoting its development in the assigned working tasks and procedures.

In this sense, the development of the agents' professional career is promoted in accordance with the Organization's own needs.

- Efficient allocation of resources

A greater functional integration is sought through internal mobility mechanisms that may allow a more flexible allocation of human resources and filling in specific jobs.

- Specialization and managerial capacity

Efforts are being devoted to increasing the staff's efficiency for facing the complexities and changes of the environment. Specialization by business area is being promoted, especially by taking advantage of the managerial capacity in the control of social security resources, through changes in the functional structure of this business area.

- Managerial strengthening

AFIP continues to promote permanent training. Training through the e-learning platform and video conferences will continue as alternative ways of promoting professional growth in the working sphere, and allowing equal access from all of the country's areas within the framework of an expenditure reduction policy.

- New managerial tools

In addition, attention is focused on promoting the managerial role as responsible for integrity in the use and application of resources. Joint work is being carried out to reinforce the development and use of managerial tools for optimizing decisionmaking that may contribute to improved management.

- Integrity

In accordance with the guidelines of AFIP's Code of Ethics, the promotion and dissemination of ethical values continues, thereby strengthening the human resources' integrity.

Efficient use of resources

- Strategic budget

AFIP is moving forward in improving the mechanisms intended to evaluate financial- economic management that originated from the estimation of resources needs for institutional operation. This will call for strengthening coordination between institutional management and the process of budgetary formulation for each period.

- Application of technology

In this way, there is a budget adapted to the strategic objectives of the Organization, costs per project may be determined, as well as the areas and responsible officials, thereby determining managerial effectiveness according to executing unit.

- Integration of processes and public information systems

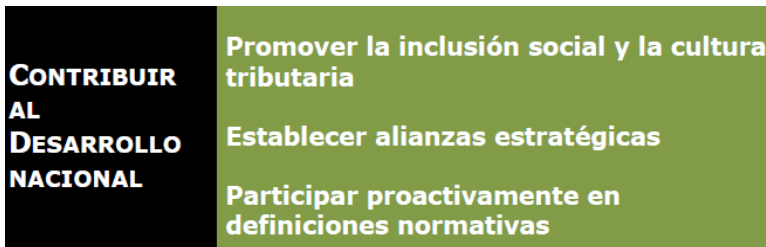
Progress continues in rendering transparent and disseminating the information, thereby promoting the development of technological projects, for making available AFIP's information to society, whose public knowledge may result in better informed and responsible citizens.

- Technological modernization

Work will continue for adapting the infrastructure, the technological and professional bases for being abreast of the most demanding quality standards at the international level by counting on one of the State's most modern and safest platforms.

- Efficient use of the information

The effective use of the information is complementarily promoted, in order to strengthen the capacities for detecting specific action areas for control actions as well as for offering citizens services and facilities for complying.



AFIP's commitment to social and tax fairness includes the search for impartial taxation of citizens. The path for development with social inclusion calls for structuring an intelligent, adaptable and strong AFIP. The various forms of noncompliance and fraud are promptly modified and adapted to the economic and normative reality, by taking advantage of an open and globalized economic environment, which poses new challenges to the Organization.

Together with the measures for preventing fraud, the application, collection, control and verification of national taxes, social security resources and foreign trade related activities, it is essential to undertake other tasks which, although not directly responding to said objective are necessary to support compliance with the mission.

In view of this reality, efforts are being devoted to the establishment of strategic alliances by expanding relationships with other public institutions and organizations. The strengthening of tax culture continues as well, by endeavoring to design and implement programs and projects aimed at different sectors of the population and likewise, the pertinent legislative changes will be proposed for strengthening the assessing and sanctioning regulations.

Promote social inclusion and the tax culture

- Promotion of cultural patterns

Continuing with the strategic decision of strengthening the citizens' tax awareness, institutional communication programs will be developed to favor voluntary compliance and discourage fraudulent behaviors.

- Tax education

In order to strengthen tax culture programs and projects will be designed and implemented. These are aimed at different sectors of the population -children, adolescents and adults- as well as the educational sector –students and teachers. Thus, an open policy of external communication will be developed for accessing new areas in the dissemination and communication media.

- Promoting the formalization of employment

Based on the operational and professional capacity and the territorial spread of the Organization, efforts will be made for improving working conditions and trade, by encouraging society's commitment to include economic players that remain in informality.

- Social commitment

Efforts will continue to be devoted to designing tools that may favor employment formalization, with special emphasis on high social vulnerability segments by promoting civic institutionalization and social cohesion.

Establishment of strategic alliances

- International insertion

In recent years, relationships with other organizations and institutions have been strengthened through the signing of several treaties and agreements. The results achieved through this policy, aimed at preventing tax, customs and social security illegal actions, as well as improvements in the application of regulatory institutional cooperation systems favor the further strengthening and expansion of alliances at the local as well as international levels.

- Agreements with other organizations

A more active participation is adopted for guaranteeing full application of the information agreements and double taxation treaties signed.

- Effective information exchange

The national tax system is managed at different administrative levels and, therefore, it is essential to count on collaboration instruments and mechanisms among all levels, as well as to adopt measures for reinforcing cooperation between the provincial and municipal administrations.

- Coordination with other organizations

Likewise, permanent coordination with social security management organizations is ensured and actions are undertaken for promoting the transfer of experiences and systems developed by AFIP to other organizations for the incorporation of best practices and thereby contributing to their modernization.

- Regional integration

Regional integration is promoted within the sphere of MERCOSUR, through actions aimed at facilitating and controlling cross-border transactions.

Proactive participation in determining regulations

- Generating consensus

The prevention and struggle against fraud calls for the continuous strengthening of the regulatory tax system.

- Regulatory proactivity

The legislative changes deemed necessary for strengthening the assessment and sanctioning regulations will be proposed, in order that the Administration may count on greater powers to obtain important tax information and increase the effectiveness of its procedures.

- Interaction with the Legislative Body

There will be permanent interaction with the various Legislative Power committees, as well as with different spheres that group and regulate the professional activities dealing with tax, customs and social security resource issues.

- Dialogue with social and sectorial players

Efforts will continue to develop procedural and empowerment specialties by business area.

Short term – AFIP annual management plans

Provisions 42/09 (AFIP) establishes the planning cycle for the activities carried out in the Organization, as well as the areas intervening in the process and their respective competencies:

The institutional planning process consists, in sum, of the following stages:

- Formulation of the Preliminary AFIP Management Plan Project
- Formulation of the AFIP Management Plan Project
- Follow-up and Evaluation Activities

3.2.1. Stage I. Preliminary AFIP Management Plan Project

This document accompanies the Organization's Draft Budget which is annually sent to the National Budget Office. It includes the most relevant activities – management indicators and improvement initiatives – that will be included in the AFIP Management Plan Project. It is prepared in the month of July 1st through 31st of each year.

3.2.2. Stage II. AFIP Management Plan Project

This document is fully prepared by AFIP and submitted to the consideration of the Cabinet of Ministers Head Office, in accordance with the provisions of Decree 1399/01.

The document is prepared between October 1st and December 10 of each year and the process consists of the following phases:

- Identification of indicators and phases by the central and operational areas of the Organization
- Analysis and prioritization of indicators and initiatives

-
- Schedule of validation meetings with the top level authorities of the Organization
 - Preparation of the Management Plan Project
 - Approval of the Management Plan Project by the Federal Administrator and transmission to the Cabinet of Ministers Head Office

After receiving the definitive AFIP Management Plan with the observations made by the Cabinet of Ministers Head Office, it is disseminated to all areas of the Federal Administration.

3.2.3. Stage III. Follow-up and evaluation activities

The follow-up and evaluation stage of the activities included in the AFIP Management Plan covers the calendar year, with different cuts in information, according to the periodicity determined for routine activities (management indicators) and the stages determined for the initiatives (projects for improvement).

Reports on monthly and quarterly cuts are prepared periodically. Progress and results are submitted on a quarterly basis to AFIP's Advisory Council.

Likewise, the Organization has a Scoreboard (Management Plan Follow-up System) which includes an alert system for promptly visualizing the course of the scheduled activities.

In this way, the indicators and initiatives included in the AFIP Management Plan, grouped by Strategic Objective, are identified in three groups, according to the level of compliance registered on the cut date as: Green, Yellow and Red.

On concluding the year, a Closing Report is prepared with the final evaluation of the institutional management results, according to what was scheduled in the Management Plan. The results are submitted to the Organization's Advisory Council, which gives its opinion on compliance with the Management Plan as provided in Decree 1399/01.

4. MANAGEMENT RESULT INDICATORS

The management result indicators are formulated and monitored within a framework of institutionalized planning, through AFIP's Annual Management Plan.

- Measurement of management through:
 - Indicators (for the routine activities).
 - Initiatives (improvement projects).
- Formulation:
 - Establishment of goals for routine activities.
 - Presentation of specific projects for each area of the Organization.
- Management Follow-up and Control:
 - Computerized system developed internally in the Organization.
 - Series of alerts that identify deviations with respect to what was planned.
 - Detailed description of progress in the projects.
- Analysis and Evaluation:
 - Preparation of monthly, quarterly and closing reports based on the follow-up.
 - Presentation of results to an Advisory Council (outside the Organization) which evaluates the results achieved.

5. CONCLUSIONS

The strategy adopted by AFIP ensures the quality of the services offered to the different taxpayer and custom user segments, transparency in the use of information and the use of friendly tools to facilitate compliance by responsible citizens, to the maximum extent possible.

The Organization's effort is aimed at consolidating the management model which tends to efficient control and ensuring sustainable levels of collection as its main axes.

To increase intelligent control, generate the perception of risk and provide financial foreseeability and juridical security are factors that resolutely contribute to an appropriate environment for national growth and productive investment with fairness, respect and everyone's abidance by the law.

DESIGN OF PLANS FOR CONTROLLING EVASION AND INDICATORS OF MANAGEMENT RESULTS

Juan Ricardo Ortega
General Director
Tax and Customs Directorate
(Colombia)

***Contents:** 1. Tax evasion control plans. - 1.1. Free zones. - 1.2. Investment and donation of forest reserve lands. - 1.3. Discounts applied on large surfaces. - 1.4. Usufruct of vehicles. - 2. Results management indicators. - 2.1. Productivity of taxes: Income and VAT. - 2.2. Tax evasion: Income and VAT. - 2.3. Management goals.*

1. TAX EVASION CONTROL PLANS

Shown below are some evasion cases or modalities detected by the Administration, as well as measures and actions taken in the examination area for combating such schemes.

1.1. Free zones

In Colombia, Free Zones are delimited geographical areas within the national territory, devoted to industrial, service and commercial activities.

Such Free Zones are subject to special tax and customs regulations that afford tax benefits, such as:

- A 15% income tax rate for industrial users of goods and services.
- Goods sold from the National Customs Territory to the Free Zones (industrial users of goods and services) are considered exempt from VAT.
- CERT tax refund certificates on exports.

Evasion scheme

In an investigation that fully verified the taxpayer's tax, customs and exchange obligations, the following behaviors, among others, were detected:

- Omission of revenues
- Omission of assets
- Clearance of goods without fulfilling the requisites and formalities provided by customs regulations
- Noncompliance with the obligation to channel payments for exports made through exchange mediums
- Noncompliance with reporting external indebtedness when being obliged to do so.

1.2. Investment and donation of forest reserve lands

According to the Colombian tax legislation, taxpayers have the right to request as deduction in their income tax return, investments made for controlling and improving the environment.

On the other hand, another tax benefit was the possibility of deducting from income tax, investments made in real productive fixed assets.

Evasion scheme

Reduction of income tax, as follows:

- Non-applicability of Deduction for Investment in the Environment
- Non-applicable Deductions – Donations
- Tax Fraud

Description of the case

A cooperative is created and the latter acquires lands located in a forest reserve zone. These lands are purchased at low prices, since they are considered nonproductive lands.

Subsequently, these lands are sold and/or exchanged with taxpayers subject to income tax at prices well above the amount for which they were acquired. In some cases, the price was multiplied by approximately 1,250 times, without having undergone any transformation whatsoever.

Once the land becomes part of the taxpayer's net worth, the latter requests the deduction for investing in the environment. The following year, the taxpayer donates this same plot of land to a nonprofit entity, thereby configuring a concurrent benefit.

Conclusions

It was proven that there was no investment in control and improvement of the environment.

Some 95 companies that used this evasion scheme were detected, most of whom were Large Taxpayers.

1.3. Discounts applied on large surfaces

The large chains charge their suppliers for carrying out several activities that allow for promoting and, therefore, selling the latter's products.

Some of these services are logistics, line management, platform, transportation, exhibition in gondolas, advertising, among others; which practices are most commonly known as *rappel* and *rebate*.

Evasion scheme

- Undue classification of revenues: Taxed Revenues for Nontaxed Revenues.
- Noncollection of VAT (sales tax)

Case description

Large surfaces do not invoice such services, but rather, by means of credit notes they reduce the cost of the goods and, accordingly, the amount to be paid to the supplier.

Therefore, the payments for the aforementioned services are not registered as revenues in the accounting records, as required by the Colombian accounting standards and accordingly, are not subject to VAT.

This practice became evident when verifying the chain suppliers, in order to determine the contents, characteristics and conceptualization of each charge made by the large surface.

Conclusions

Investigations have begun to determine the amount of VAT not collected for the rendering of such services.

The associations representing the interests of such chains have approached the DIAN to determine, toward the future, the conceptualization of each charge and its tax impact, in order that large surfaces and suppliers may have clear rules.

1.4. Usufruct of vehicles

According to Colombian civil legislation, the usufruct is a contract whereby a person grants another, the use and benefit of some property.

Evasion scheme

Vehicle dealers are offering their customers, in replacement of a purchase contract, which is the common negotiating practice, a usufruct contract together with a future promise of purchase of the same vehicle by the customer.

The foregoing practice allows:

- Deduction for Investment in Real Productive Fixed Assets
- Depreciation expense
- Omission of Revenues
- Noncollection of VAT

Case description

An imported vehicles company simultaneously enters into Promise of Purchase and Usufruct of Motor Vehicle contracts with the customer-purchaser and in the latter contract transfers ownership of the vehicle to the purchaser.

The form of payment agreed by the two parties consists of 50% as initial installment and the remaining 50% in 60 equal monthly payments to the vehicle company which are disbursed by the financial entity granting the credit to the purchaser.

They do not issue an invoice; therefore, do not collect the respective VAT; neither do they register the actual revenues from the sale of the vehicle in their accounting records, since the sale is generated in a deferred manner during the five years of duration of the contract and the difference in the amount paid for the vehicle is considered a conditioned discount (which had never been agreed), charging it as a deduction, and causing an impact on income tax as well.

Conclusions

Based on the investigations carried out, it was determined that the legal transaction actually carried out was a vehicle purchase and not usufruct contract.

Administrative actions were undertaken to determine the uncollected VAT, as well as to reject depreciation expenses and deductions for investment in real productive fixed assets.

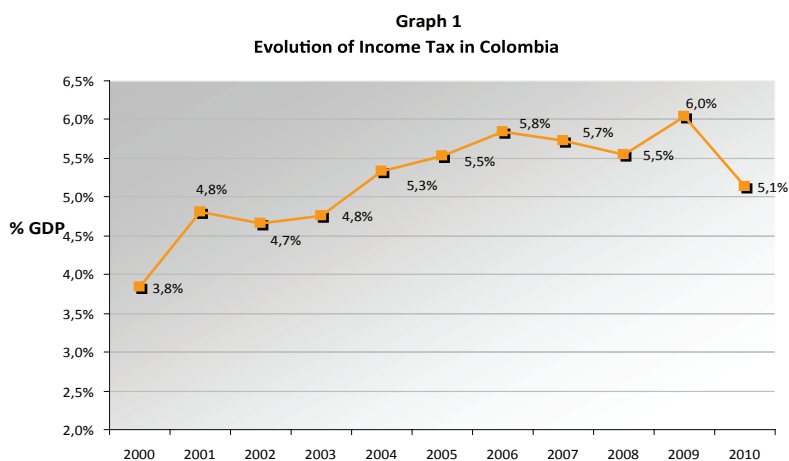
2. RESULTS MANAGEMENT INDICATORS

This chapter briefly shows the Income Tax and VAT productivity in Colombia, as well as the levels of evasion with respect to the aforementioned taxes in our country.

The study was prepared by the Deputy Directorate of Operational Analysis Management for structuring the 2012 plan for combating evasion.

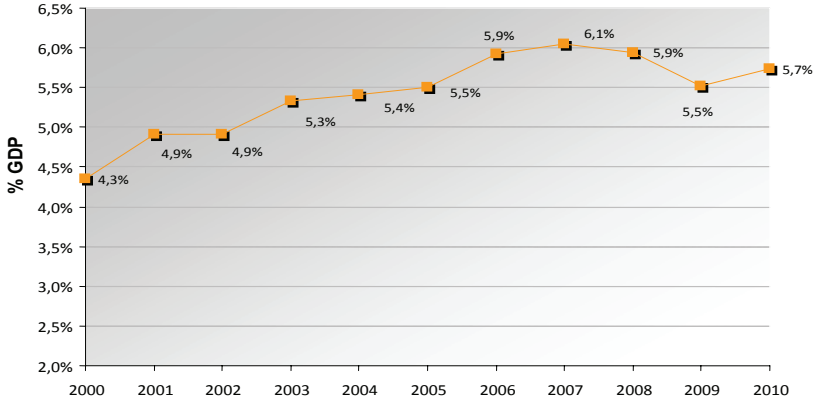
2.1. Productivity of taxes: Income and VAT

Taking the GDP as point of reference for dimensioning the maximum size of the income and VAT tax base, it is possible to calculate a theoretical or potential collection which, on being compared with the actual collection shows an approximation of the productivity of the taxes.



Source: Deputy Directorate of Operational Analysis Management - DIAN

Graph 2
Evolution of Sales Tax - VAT in Colombia



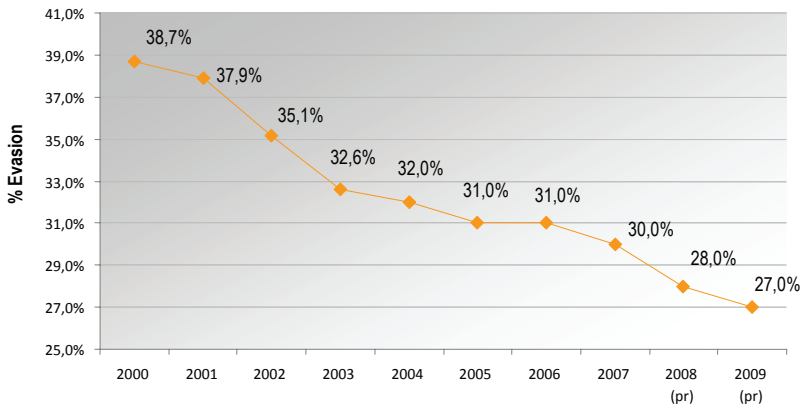
Source: Deputy Directorate of Operational Analysis Management – DIAN

2.2. Tax evasion: Income and VAT

Estimations show that at 2009 prices, that total estimated income tax evasion amounted to \$11,5 trillion Pesos, which represents 2.3% of GDP. The control of every point of evasion in relation to this tax would allow the national treasury to recover \$427 billion Pesos per year.

The following graph shows that the rate of global evasion for this tax decreased from 39% in the year 2000, to 27% in 2009.

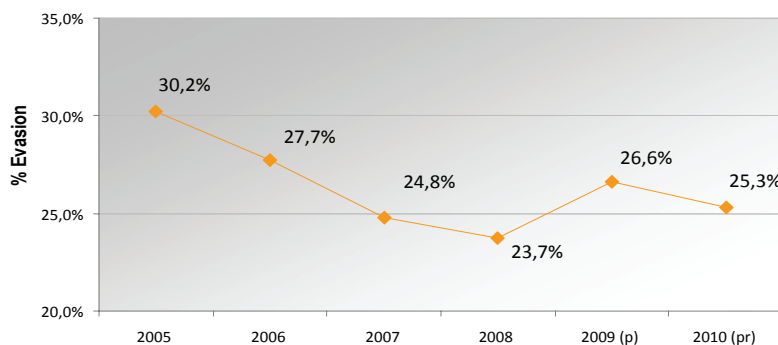
Graph 3
Rate of Income Tax Evasion in Colombia



Source: Deputy Directorate of Operational Analysis Management

With respect to the sales tax, the estimated 25 points of evasion (graph 5) for 2010 represent 10.6 trillion Pesos which are equivalent to approximately 2 points of the GDP. Every point of evasion reduces tax revenues by approximately 420 billion Pesos of the year 2010.

Graph 4
Rate of VAT Evasion in Colombia



DIAN established the following goals for the four-year period, with respect to the Plan for combating evasion.

No.	Nombre del indicador	Responsable	Programación de la Meta			
			2011	2012	2013	2014
1	Gestión Efectiva de Fiscalización (billones de \$)	Dirección de Gestión de Fiscalización	1,3	1,4	1,6	2

Effective management of tax examination is measured by taking into account the following components:

- Corrections of inaccurate taxpayer returns or the filing of returns by individuals who had failed to comply with said obligation.
- Actions undertaken and enforced which result in larger amounts to be paid, lower balances in favor or the application of sanctions.
- The results of collection improvement programs applied to taxpayers responsible for Income and Value Added Taxes and Withholdings at the source concurrently with the filing of the respective return.

Shown below are the results for 2011.

No.	Nombre del indicador	Responsable	Meta	Logrado	% Cumplimiento
1	Gestión Efectiva de Fiscalización (billones de \$)	Dirección de Gestión de Fiscalización	1,3	1,4	108%

FINAL CONSIDERATIONS

FINAL CONSIDERATIONS

Jeffrey Owens

Former Director of the OECD's Center for Tax Policy and Administration

New challenges for tax administrations in the 21st century



Jeffrey Owens

1. INTRODUCTION

I would like to thank CIAT for inviting me to give this closing speech. As many of you know, I recently retired from the OECD. It is a strange sensation: retired but aware that there is still so much to be done in the tax world.

My career at the OECD almost matches my engagement with CIAT. The first CIAT meeting I attended was in Brazil over 30 years ago.

Much has changed since then, both in CIAT and in tax administrations around the world.

Marcio asked me to pull together some of the themes which run through our discussions this week. A rich discussion with many new ideas being put on the table. I do not want to repeat all of the points that were made, but I do want to tie them together around four themes.

- The change in attitudes to tax compliance on the part tax administrations.
- How tax administrations have responded to the challenges of operating a tax system in a rapidly changing global environment.
- What new challenges are tax administrations facing and likely to face over the next decade.
- The role of international co-operation.

2. CHANGE IN ATTITUDES ON THE PART OF TAX ADMINISTRATIONS

The traditional approach of tax administrations to tax compliance was very much based on what I call a military analogy: identify the target (evaders), take them out. The focus was to detect and deter evasion primarily by blanket auditing. Tax administrations were the “cops” in the system: their role was to police the system. Audits, usually confrontational, were at the centre of strategy. Success was measured by the yield from these audits; the number of assessments made; the number of court cases won, or in some cases even lost; the extra revenue brought in. Most tax administrations were headed up by either lawyers (with a natural inclination to litigate) or tax technicians that had worked their way up through the audit chain. Tax administrations found it relatively easy to gain more resources and by the end of this 30 year period, most tax administrations were much larger than they were at the start.

Tax administrations are now moving towards developing a more behavioural response to compliance: shifting towards prevention rather than just detection and non-compliance. Why this change:

- Recognition that the majority of taxpayers want to voluntarily comply and the tax administrations’ main task is to help them do that.
- Taxpayers becoming more assertive, insisting that they have rights as well as obligations.
- Taxpayer segmentation: acceptance that different groups of taxpayers have different types of needs.
- A move away from a tax by tax approach to more of a taxpayer by taxpayer approach
- Most tax administrations, certainly in the developed world, are now under severe pressures to do more with less.
- A recognition that the informal economy cannot be dealt with effectively just by stricter enforcement.

3. HOW HAVE TAX ADMINISTRATIONS RESPONDED TO THESE PRESSURES?

We should not underestimate the impact on tax administrations of becoming not just collection agencies but also spending agencies. Many are now responsible for implementing social programmes (e.g. family credits; student loan schemes). Also, many governments look to the tax administration to implement part of their structural programmes

to exit from the crisis. Increasingly, tax authorities are taking on the role of regulators (e.g. in the environmental area).

All of this has changed fundamentally the way that a tax administration operates, the profile of the staff needed and the political risks for tax administrations. Few citizens will complain if their tax bills are late but they will complain loudly if their benefits payments are late. Many tax Commissioners are ambivalent about this trend and we are beginning to see a reversal, with some tax administrations curtailing their functions as spending agencies.

Tax Administrations now have to operate in a global environment where multinational enterprises operate as global entities, with more tenuous links to their own countries. They operate and plan on a global basis and this applies to their tax affairs. Increasingly, multinational enterprises are from the BRICS. Similarly, the advisory profession has become increasingly global. Nowhere is this process of globalisation stronger than in the financial sector. Foreign exchange controls have largely disappeared; controls on inward and outward investment have gone. Technology has enabled financial institutions to move vast sums of money around the world at the click of a mouse. Despite the challenges globalisation poses for tax administrations, one should not underestimate the benefits of globalisation: benefits for citizens; for governments; for business. But we must make sure that the costs and benefits of globalisation are fairly shared.

This globalisation of national economies poses new challenges for tax administrations, since they have to operate behind national barriers. They are national, not global institutions. This can be seen from the following examples:

- The subprime mortgage crisis in the United States spread rapidly to other financial markets.
- The potential impact of the telecommunications debate in India on tax administrations around the world.
- The way aggressive tax schemes designed in one country, spread quickly to other countries.

Another transformation in the global environment is the growth of new high net wealth individuals. We have always had the very rich but what we are now seeing is a tendency to move towards what some investment bankers have called the “ultra-rich”; or what many call “Davos men” (and generally they are men rather than women). These are individuals who have much weaker ties to any jurisdiction;

who are more aggressive and hands on in managing their wealth. And who are more “footloose” and more at ease with each other than their fellow citizens. They are also more prepared to take more risks in their management of their portfolios.

We have also seen governments putting more pressure on tax administrations to reduce compliance costs for taxpayers. This is not new but it has taken on a new dimension with the recognition that compliance costs can be a factor in defining the competitiveness of a country. This new environment has also opened up new opportunities for tax administrations:

- New technologies which enable tax administrations to provide e-services to a wider range of taxpayers.
- Software which makes it far easier for tax administrations and taxpayers to calculate the amount of VAT due.
- Acceptance that in a global economy there is a need for greater tax transparency and the elimination of bank secrecy as a shield behind which tax evaders can hide.
- An acceptance that tax administrations must learn to do more with less and learn from the experiences of each other.

4. HOW HAVE TAX ADMINISTRATIONS RESPONDED TO THESE PRESSURES?

Tax administrations today are very different organisations to what they were even ten years ago. Some of the major changes are:

I. Structural changes.

Tax administrations have moved away from a tax by tax approach to as far as possible to an integrated approach to dealing with the taxpayers. Today there are very few OECD countries that have not integrated direct and indirect tax departments and many have also brought in social security contributions. For large payers, we increasingly see that VAT, corporate income tax and other taxes are dealt with in a highly integrated approach; with many countries having relationship managers that are dedicated to a particularly large company. We have also seen the move towards the creation of independent revenue services, especially in non OECD countries, and this has removed political influence, encouraged a move towards a more realistic pay scale and also made a clearer distinction between policy formulation and policy implementation.

We have also seen most tax administrations establish special units to

deal with groups of taxpayers which are particularly important in terms of revenue contribution. Many tax administrations now have large business units and these are generally responsible for dealing with multinational enterprises. A growing number of countries have created units which focus on high net-wealth individuals and some have specialised units to deal with small/medium sized enterprises. We can expect this to tendency towards taxpayer segmentation to continue.

II. A new emphasis on risk management

Increasingly tax administrations are adopting a more sophisticated approach to risk management, which can be seen as part of the segmentation approach referred to above. The basic idea is simple: by focussing resources on higher risk segments and taxpayers, tax administrations can make a more effective use of their limited resources. This requires a systematic approach to the identification, assessment, prioritisation and treatment of compliance risks.

Successful risk management requires:

- Better access to information both domestically and offshore: information which is needed to identify both low and high risk taxpayers.
- This in turn requires the ability to integrate information from different sources.
- A communication strategy, explaining why a taxpayer is in the high risk category; what are the criteria; what are the consequences

III. A more behavioural approach towards compliance

This approach recognises that the taxpayers' attitudes towards compliance are more complex than just being driven by the fear of detection. Behavioural scientists and economists developed a new approach; largely pioneered by Australia (the Australian tax office was wise enough to support academics undertaking research in this area). The key idea is that those taxpayers who want to comply should be helped to do so, whereas, the persistent evaders should be targeted for investigations and subject to strict penalties.

The Australian tax office developed a compliance pyramid which put taxpayers into 4 categories:

- Those who do not wish to comply
- Those who do not comply but will if the tax administration focuses on them

- Those that try to comply but don't always succeed.
 - Those that are willing to do the right thing and end up doing so.
- This model went on to identify the five factors which may influence taxpayer behaviour;
- The business type (sole trader, multinational enterprise etc.)
 - The industrial sector (e.g. Whether or not the sector is heavily regulated)
 - The economic environment (what the macro economic situation is like)
 - The psychology of the taxpayer (fear, concepts of fairness)
 - Sociological factors

The implications of this new approach are that it generally enriches the tools available to tax administrations to achieve good compliance that go way beyond just enforcement. It encourages them to educate taxpayers on their rights and obligations; to put in place mechanisms to improve service; to move towards a more targeted enforcement activity.

IV. Putting tax compliance in the broader governance/social responsibility framework

For far too long tax administrators talked just to tax professionals, whether in the advisory community or in business. This is changing. Commissioners are now spending more time talking to CEOs, CFOs and corporate boards. Getting them to see that good tax compliance should be part of their good corporate governance strategy (not an easy time when the financial crisis is putting pressure on corporations).

The attractiveness of this approach is that it forces corporate boards to discuss tax issues more frequently and to take ownership of a company's tax strategy. Boards are more likely than tax directors to weigh up the financial and reputation risks associated with an aggressive tax strategy against a potential saving in tax. Some may decide to continue to pursue an aggressive strategy, others may not, but at least the debate goes beyond just minimising the effective tax rate.

When the OECD started to explore this new approach in the Forum of Tax Administration, the majority of Commissioners were sceptical. Some countries had rules that forbid the Commissioner to go into a Board room; some Commissioners were concerned about being accused of doing "sweet deals". And some felt that this was not part of their job description.

Not unexpectedly, there was also a reluctance on the part of the business community and the advisory profession. They argued that tax was just too complex to have the board engage in detailed discussion.

The corporate governance community, as represented in the OECD's Corporate Governance Group, was reluctant to make the link between good corporate governance and good tax compliance. But after three years of work by the FTA, things are changing. Increasingly Commissioners are spending more time talking to Board members and this has resulted in a move towards Boards accepting they must respect both the letter and the spirit of the tax laws. A view reinforced by the recently revised OECD Guidelines on Multinational Enterprises which now explicitly refers to the need for multinationals to respect the spirit and the letter of the law.

This message has also been reinforced by the way in which civil society has taken up the issue of tax transparency and good tax compliance. And governments, both of the left and the right, have been responsive to these campaigns (the impact of the "Occupy Wall Street" and "Tax uncut" campaigns cannot be overestimated). Tax Commissioners and Tax Directors must learn how to operate in this new, more politically inclusive environment.

V. The move to more tax transparency

Tax administrations have built on the political support from the G20 and other groups towards more transparency in taxation and the elimination of bank secrecy as a shield behind which tax evaders can hide. Tax administrations are putting in place voluntary compliance initiatives to encourage taxpayers to come forward and declare their assets held illegally offshore, other countries are putting in place tax amnesties. All of these moves recognise that we must deal with the legacy of the past if we are to move on to a new more, co-operative future.

We have also seen a more aggressive approach adopted towards aggressive tax planning. Many governments have put in disclosure rules, others have targeted not just the users of the schemes but also the promoters and many countries are using sophisticated communication companies to show why it is socially unacceptable to engage in these types of practises.

5. UPCOMING CHALLENGES

What are the upcoming challenges for tax administrations over the next decade? There are many which will materialise, but I will identify nine that may be particularly problematic:

- I. The risks of breaches of confidentiality. Whilst welcoming the spread of tax information exchange agreements, whether bilateral or multilateral, and the move towards automatic exchange, it is clear that in this new environment there is an unprecedented risk that information will be leaked. That, in turn, could jeopardise the move to better exchange of information
- II. The increasing role of medium sized enterprises in cost border trade will also challenge tax administrations. These enterprises are far less familiar with the international tax rules and therefore may find themselves in a situation of non-compliance, in part because they are not familiar with the rules. Tax administrations will need to consider how they can actually help these taxpayers, particularly in the area of transfer pricing.
- III. Working closely with other tax enforcement agencies. Tax administrations need to accept they have a role in counteracting all forms of illicit activities and that information shared with other government departments does not represent a breach of confidentiality. There has been significant progress here over the last 18 months with the FATF making tax crimes a predicated offence. We have also seen unprecedented cooperation between tax and other law enforcement agencies but again, this does cause risks for tax administrations; it does change the nature of their work.
- IV. The emergence on the global scene of multinationals which are from the BRICS and other Economies in Transition. These multinationals have begun to go global and are now some of the fastest growing multinationals in the world. Inevitably, they have less familiarity with the international rules of the game whether in the area of treaties or transfer pricing and, therefore, perhaps may inadvertently or consciously non-comply with these rules. This is particularly important for countries like China, Brazil and India where there are many multinationals that operate on a global scale.
- V. Pressure to produce a business friendly tax environment. We can expect this pressure to increase as governments recognise that

a competitive tax environment is not just a question of putting in place the right policy environment but it is also a question of how the rules are administered in practice. This will be especially important in emerging economies as they begin to move up the value chain into the service and high-tech activities.

- VI. Recruiting and maintaining high quality staff. A tax administration is only as good as its staff. Yet today we see many tax administrations with an aging workforce facing the risk of a generation gap. Morale is weak and training programmes are being cut. A worldwide shortage in qualified tax professionals is emerging and governments will find themselves competing with the private sector for this diminished pool. One response may be to adopt more of a revolving door policy, whereby it becomes acceptable for tax experts to move freely between the private and the public sectors.
- VII. Maintaining Taxpayers' trust in the system. A tax system is only as good as it is perceived to be. There must be a relationship between taxpayers, tax advisors and tax administrations which is based on trust; a mutual understanding. An inclusive and constructive dialogue on issues is the most effective way of preventing that these issues become problems.
- VIII. Outsourcing of functions. Already we have seen many administrations undertake a substantial outsourcing of IT functions, but there are also other functions that are being outsourced. Financial Institutions are being asked or required to play a more important role, not just in the collection of tax (the traditional role of withholding agencies) but also as assessors of tax due and verifiers that the tax obligations are met. You can see this with the US QI arrangements and with the FATCA initiatives. You can also see it in the RUBIK agreements that are being pushed by Switzerland. We are also seeing the beginning of a process by which tax authority's role as the collectors of data becomes less important as they rely on the information stored in the "Cloud".
- IX. Attitudes are changing towards tax disputes. Today, tax administrations and taxpayers increasingly recognise that they have a shared interest in minimising and resolving quickly tax disputes and a recognition that this requires focussing not just on one particular issue but on the whole process by which they can avoid disputes. This requires engaging taxpayers in the process of policy formulation and implementation. It requires identifying

and discussing issues before they become problems. It requires pre-filing resolution, the type of programmes that we see in the US (the CAT program) or the Dutch horizontal monitoring programmes. It also requires a greater use of informal mediation, particularly in the area of establishing the facts in transfer pricing case. And it requires a wider use of APA type of programmes and mandatory arbitration.

6. THE ROLE OF INCREASED INTERNATIONAL TAX CO-OPERATION

Better co-operation between tax administrations can help resolve some of these challenges. Many of these challenges come about from the intensification of the process of globalisation and that in turn requires an increased co-operation between tax administrations. We have to accept that this will be a messy process with different actors playing different roles. Those who advocate that the solution to this is to create a World Tax Organisation have to recognise that whilst, in abstract, this may be desirable, in practice it is a political non-starter.

We will continue to have many actors on the scene, regional groupings like IOTA, SAGTA, ATAF the EU, CIAT; smaller groupings like the BRICS. And more global groupings like the FTA, the OECD and CATA (at the last count there were more than 15 organisations working on tax administrations around the world). In an ideal world, these organisations would come together under an umbrella organisation (an approach that I tried with the creation of CIOTA in the 1990s, but which failed). Nevertheless, we need much closer cooperation between these organisations. We need a sharing of best practices between them and we need global benchmarks for the performance of tax administrations. This requires a South-South as well as North-South dialogue.

We also need to move from co-operation towards better co-ordination between tax administrations: moving beyond the exchange of information, to for example, simultaneous examinations and joint audits which offer new and exciting opportunities for co-ordination. The legal framework is there in the Multilateral Convention on Administrative Assistance. We also need more effective mechanisms to share information on aggressive tax planning schemes. So yes tax administrations will remain national but they can overcome these geographic barriers by better co-operation and better co-ordination. Clearly the role of CIAT can only continue to increase in importance as member countries look towards it for assistance when dealing with these challenges.

TECHNICAL PROGRAM

CIAT GENERAL ASSEMBLY
Santiago, Chile
April 23 – 26, 2012

DAILY SCHEDULE OF ACTIVITIES

MAIN THEME: **“IMPROVING THE PERFORMANCE OF THE
TAX ADMINISTRATION: EVASION CONTROL
AND TAXPAYER ASSISTANCE**

Monday, April 23

08:45 - 09:30 Inaugural ceremony
• Coffee
• Official photographic

Morning

**TOPIC 1: THE USE OF INFORMATION AND
COMMUNICATION TECHNOLOGIES
TO IMPROVE PERFORMANCE AND
FACILITATE COMPLIANCE.**

Moderator: Carlos Marx Carrasco, General
Director, Internal Revenue Service,
Ecuador

09:30 - 10:00 **Speaker:** Julio Pereira Gandarillas, Director,
Internal Revenue Service, Chile (30´)

10:00 - 10:10 **Commentator:** John Njiraini, Commissioner
General, Kenya Revenue Authority,
(10´)

10:10 - 10:30 Discussion (20´)

**Country Case 1.1 e-Facilitation of Compliance:
Taxpayer services via Internet**

Moderator: Miguel Gutiérrez, Superintendent of
Tax Administration, Guatemala

Technical Program

- 10:30 - 10:50 **Speaker:** Beatriz Gloria Viana Miguel, General Director, State Agency of Tax Administration, Spain (20')
- 10:50 - 11:10 **Speaker:** Sue Wormington, Director General, Horizontal Integration Division, Canada Revenue Agency (20')
- 11:10 - 11:30 **Speaker:** Alain Lelouey, Head of the Copernic IT Program, General Directorate of Public Finances, France (20')
- 11:30 - 12:10 Discussion (40')

Country Case 1.2: e-Control of noncompliance.

Moderator: Roberto Ugarte, Acting Executive Chairman, National Tax Service, Bolivia

- 12:10 - 12:30 **Speaker:** Germania Montás, Deputy Director General, General Director of Internal Taxes, Dominican Republic(20')
- 12:30 - 12:50 **Speaker:** Marian Bette, Senior Policy Advisor, Tax and Customs Administration, The Netherlands (20')
- 12:50 - 13:10 **Speaker:** Julio Pereira Gandarillas, Director, Internal Revenue Service, Chile (20')

13:10 - 13:50 Discussion (40')

13:50 - 15:00 Lunch

Afternoon

GENERAL ASSEMBLY ADMINISTRATIVE SESSION: For representatives of CIAT member countries only

Tuesday, April 24

Morning

Country Case 1.3 e-Cooperation: Information technologies that may allow for exchanging information between national and international entities.

Moderator: Gerónimo Bellasai, Vice-Minister of Taxation, State Undersecretariat of Taxation, Paraguay

09:00 - 09:20 **Speaker:** Frank Van Driessche, Tax Administration and Fight Against Fiscal Fraud, Directorate General for Taxation and the Customs Union, European Commission (20')

09:20 - 09:40 **Speaker:** Carlos Alberto Barreto, Secretary, Secretariat of Federal Revenues of Brazil (20')

09:40 - 10:00 **Speaker:** Sergio Mujica, Deputy Secretary General, World Customs Organization-WCO (20')

10:00 - 10:30 Discussion (30')

10:30 - 10:50 Coffee break

10:50 - 12:20 **Panel 1: KEY ASPECTS IN COMMUNICATION AND TAXPAYER SERVICES:** Which are the minimum services that should be provided via Internet; which ones should be provided on line, which ones through the communication media?

Moderator: Raúl Zambrano, Technical Assistance and Information and Communications Technology, Director, CIAT

Participants: Canada, Costa Rica, Guatemala, IMF, Spain

MULTILATERAL CONVENTION ON MUTUAL ADMINISTRATIVE ASSISTANCE IN TAX MATTERS

12:20 - 12:50 **Speaker:** Pascal Saint-Amans - OECD (30')

12:50 - 13:00 **Commentator:** Socorro Velazquez - CIAT (10')

13:00 - 13:20 Discussion (20')

13:20 - 14:30 Lunch

Integration Afternoon

Wednesday, April 25

Morning

TOPIC 2 SATISFACTION AND QUALITY OF SERVICE PROVIDED BY THE TAX ADMINISTRATION TO THE TAXPAYER

Country Case 2.1 Mechanisms for measuring the Quality of Service provided to the taxpayer and results achieved.

Moderator: Rosario Massino, Head of International Cooperation Office, Guardia di Finanza, Italy

09:00 - 09:20 **Speaker:** Vilhelm Andersson, Deputy Director General, Swedish Tax Agency (20')

09:20 - 09:40 **Speaker:** (20')

Country Case 2.2 Mechanisms implemented for assisting taxpayers in remote geographical areas.

Moderator: Pablo Ferreri, Director General of Revenue, General Directorate of Taxation, Uruguay

-
- 09:40 - 10:00 **Speaker:** Raju Budhia, Group Manager, Corporate Risk and Assurance, Inland Revenue, New Zealand (20')
- 10:00 - 10:20 **Speaker:** Carlos Marx Carrasco, General Director, Internal Revenue Service, Ecuador (20')
- 10:20 - 10:50 Coffee break
- 10:50 - 11:30 Discussion (40')

Country Case 2.3 Strategies aimed at improving the Quality of the Service.

Moderator: Martin Cox, Permanent Secretary of Finance, Ministry of Finance and Economic Affairs, Barbados

- 11:30 - 11:50 **Speaker:** Douglas O'donnell, Assistant Deputy Commissioner, IRS, U.S.A. (20')
- 11:50 - 12:10 **Speaker:** José Antonio de Azevedo Pereira, Director General of Revenue, Tax Customs Authority, Portugal (20')

12:10 - 12:50 Discussion (40')

12:50 - 14:15 Lunch

Afternoon

- 14:15 - 15:10 **Panel 2: ADVANTAGES AND DISADVANTAGES OF MEASURING THE QUALITY OF SERVICE PROVIDED TO THE TAXPAYERS:** ¿What methodology should be used, how often should it be done? Dissemination of results and actions to be undertaken

Moderator: María Raquel Ayala - CIAT

Participants: Ecuador, Spain, New Zealand, USA

TOPIC 3: MEASUREMENT OF VAT AND INCOME TAX EVASION BY INDIVIDUAL AND CORPORATE TAXPAYERS.

Moderator: Deokie Hosein, Acting Chairman, Board of Inland Revenue, Trinidad & Tobago

15:10 - 15:40 **Speaker:** Julio Pereira Gandarillas, Director, Internal Revenue Service, Chile (30')

15:40 - 15:50 **Commentator:** Promila Bhardwaj, Director General, Department of Income Tax, Ministry of Finance, India (10')

15:50 - 16:30 Discussion (40')

16:30 - 16:55 Coffee break

16:55 - 17:30 Participation of the Minister of Finance of Chile, Dr. Felipe Larraín Bascuñán.

Thursday, April 26

Morning

Country Case 3.1 Methodologies for estimating income tax and VAT evasion.

Moderator: Julio Pereira Gandarillas, Director, Internal Revenue Service, Chile

09:00 - 09:20 **Speaker:** Miguel Pecho – Director, Tax Studies and Research, CIAT (20')

09:20 - 09:40 **Speaker:** Fernando Vidal Flecha Arrua, General Director of Tax Examination, Paraguay (20')

09:40 - 10:00 **Speaker:** Juan Pablo Jiménez, Economic Affairs Officer, ECLAC (20')

10:00 - 10:40 Discussion (40´)

10:40 - 11:00 Coffee break

Country Case 3.3 Design of plans for controlling evasion and indicators of management results.

Moderator: Khurshid Sattaur, Commissioner General, Guyana Revenue Authority

11:00 - 11:20 **Speaker:** Carlos Sánchez, Director General, Social Security Resources, Federal Administration of Public Revenues, Argentina (20´)

11:20 - 11:40 **Speaker:** Juan Ricardo Ortega, General Director, Tax and Customs Directorate, Colombia (20´)

11:40 - 12:10 Discussion (30´)

12:10 - 13:30 **Lunch**

Afternoon

13:30 - 14:30 **Panel 3: THE METHODOLOGIES FOR MEASURING EVASION AND THE DESIGN OF CONTROL PROGRAMS:** Pros and cons. Fundamental agreements and structural disagreements.

Moderator: Miguel Pecho - CIAT

Participants: Chile, Dominican Republic, IDB, Peru

14:30 - 15:30 **Presentation of CIAT / IADB / CAPTAC-DR Project on "The State of the Latin American Tax Administrations"**

15:30 - 15:50 Discussion (20´)

Technical Program

15:50 - 16:10 Coffee break

16:10 - 17:20 Closing session

16:10 - 16:20 Evaluation of event

16:20 - 16:50 **Final considerations** – Jeffrey Owens

16:50 - 17:20 Closing Ceremony

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Santiago, Chile
April 23 to 24, 2012

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