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Measuring the tax transaction costs in small and medium-sized enterprises

Case study URUGUAY

Measuring Tax Transaction Costs in Small and Medium Enterprises Case study: URUGUAY

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EXECUTIVE SUMMARY

1. The tax-transaction costs accounted for 1.5% of the GDP for the year 2012 in Uruguay. Of this total, 1.31% corresponded to the costs of tax compliance on the side of taxpayers and 0.188% corresponded to the administrative costs of the tax administration.
2. The Micro, small and medium enterprises (MSMEs) represent an important universe within companies in Uruguay. According to the definition established by the methodology for measuring the tax transaction costs, most companies in Uruguay (97%) are included in what is called micro-enterprises (micro + small). Only 3% of companies are included within the definition of medium companies (sales revenue between 1.2-8.9 million dollars).
3. The average weighted cost by company amounted to \$ 2,808 a year. In the case of the companies paying the minimum VAT, this cost was \$1,435 dollars a year, while it was \$2,796 for the No CEDE taxpayers and \$7,033 to the CEDE taxpayers. These differences are explained by the external costs of the companies, especially in the use of external consultants, representing almost 75% of the cost. Whereas these costs are fixed, when sales percentage are analyzed, it can be observed that the compliance costs are regressive for micro-enterprises, representing a 1.21% of sales, while for small and medium business they represented 0.28% and 0.03% respectively.
4. An average company allocates 241 hours a year to comply with their tax obligations. The study shows that 64 percent of the companies stated the use of external consultants for complying with tax obligations. Such information is interesting within the scope of the study and shows certain opportunities for improving some processes.
5. In relation to administrative costs, the wages item is the highest relative one in the budget of the DGI. Therefore, the methodology of resources allocations by installed capacity is consistent with the calculations. There is a high concentration of administrative costs in the tax control process. There is a consistent relationship between the expenditure allocated to control and the costs of compliance. Almost 20% of respondents said to be included in the tax administration action, mainly due to formal controls and verification of differences in tax returns and payments.

6. Administrative costs represent 0.188% of GDP. There is a high concentration of administrative costs (0.14% of GDP) in the intensive control actions specifically aimed at CEDE and non-CEDE taxpayers. It is a quite expected result, considering that the return of the DGI shows similar proportions in these control processes.

CHAPTER 1

1 GENERAL CONSIDERATIONS ON THE TAX SYSTEM IN URUGUAY

1.1. ECONOMIC AND BUSINESS STRUCTURE OF URUGUAY

Uruguay, officially known as Republic East of the Uruguay, is located in the eastern part of the American South Cone. It borders Brazil (northeast), Argentina (West) and with coasts on the Atlantic Ocean and on the Río de la Plata. Its extension is 176,000 km², being the second smallest country in South America in terms of territory, behind Suriname. The total population reaches 3.29 million inhabitants, representing the tenth largest population among the countries of South America.¹

It is a presidential Republic divided into 19 departments and 89 municipalities. The capital and largest city of the country is Montevideo has 1.32 million inhabitants and about 2 million in its metropolitan area (nearly 58.8% of the national total).²

Figure 1 - Map of Eastern Republic of Uruguay1



¹ Update on 10/08/2012. National Institute of statistics (INE), Census 2011 (<http://www.ine.gub.uy/censos2011/index.html>)

² It is considered as the departments of Montevideo, Canelones, and San José metropolitan area.

Table 1 - Population of Uruguay – Departments
1

Total country	Population	%
	3.286.314	100,0%
Montevideo	1.319.108	40,1%
Canelones	520.187	15,8%
Maldonado	164.300	5,0%
Salto	124.878	3,8%
Colonia	123.203	3,7%
Paysandú	113.124	3,4%
San José	108.309	3,3%
Rivera	103.493	3,1%
Tacuarembó	90.053	2,7%
Cerro Largo	84.698	2,6%
Soriano	82.595	2,5%
Artigas	73.378	2,2%
Rocha	68.088	2,1%
Florida	67.048	2,0%
Lavalleja	58.815	1,8%
Durazno	57.088	1,7%
Río Negro	54.765	1,7%
Treinta y Tres	48.134	1,5%
Flores	25.050	0,8%

Source: INE - Censos 2011

Creation: Author

In regards to their economic activity, Uruguay is an agro-exporting country, therefore agriculture (rice, wheat, corn, sunflower, sorghum, barley, soya, sugar cane) and livestock (cattle, sheep) are the main resources. The principal industries are frozen products, milk and derivatives, textiles, paper and cardboard, fertilizers, alcohols, cement and oil refining.

The services sector (financial, logistics, transport, and communications) is also highlighted, as well as the Information technologies industry, in particular the development of software and related services. Uruguay is also the biggest software exporter per capita in Latin America and the fourth in absolute terms, behind Mexico, Brazil and Argentina.³

Another of the main economic income to the country is tourism: the nation has a coastline on the Río de la Plata and the Atlantic Ocean with beach resorts; among them are the famous tourist sites of Punta del Este and Piriapolis .

³ Paulo Bastos Tigre and Felipe Silveira Marques (2011) Latin America in the Global software and services industry:” A Common Vision”. In: ECLAC (2009). Challenges and opportunities in Latin America software industry <http://www.eclac.org/publicaciones/xml/5/35655/Capitulo8.pdf>.

Uruguay was the only country in Latin America to avoid the global recession in 2008 and 2009, which has been attributed to fiscal discipline and adaptability of policies.

Table 2 - GDP and inflation 2010-2012 - annual % variation²

Indicator	2010	2011	2012
Gross Internal Product	8.9	6.5	3.8
Inflation	6.9	8.6	9.1

Source: CEPAL (2012)

Creation: Author

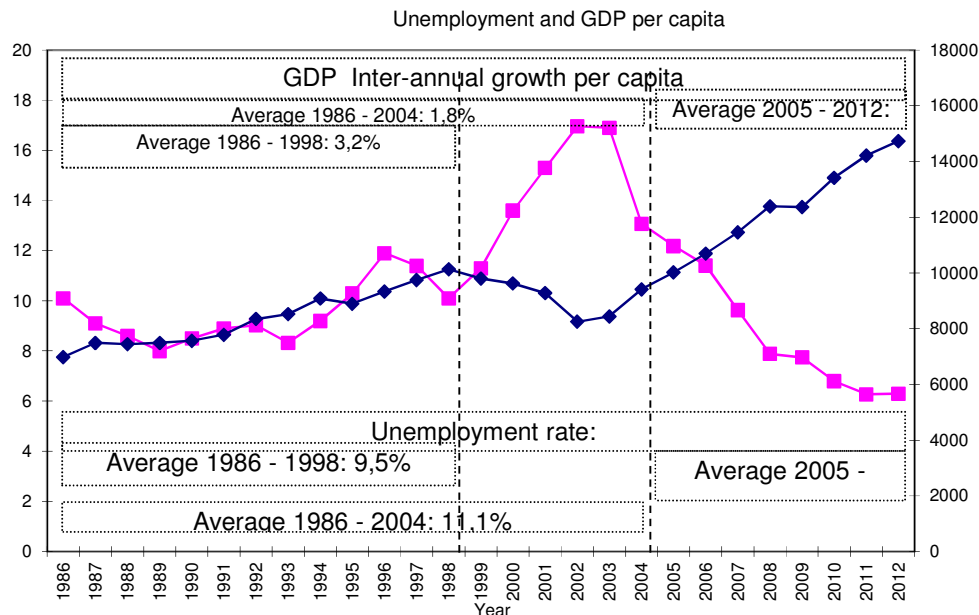
Uruguay GDP exceeds US \$30 billion and reaches almost US \$10 thousand of production per inhabitant and, once corrected by purchasing power parity, was \$14,296 in 2011, becoming the fourth largest economy in Latin America, after Argentina, Chile and Mexico.⁴

According to the National Institute of statistics (INE), unemployment rate reached 5.5% to December 2012. Likewise, according to the applied methodology (income method) by this Institute in 2012, poverty levels reached 12.4% of the population, while poverty or extreme poverty was 0.5%, showing a continuous reduction since 2006.⁵

⁴ <http://www.americaeconomia.com/economia-mercados/finanzas/uruguay-liderara-expansion-de-pibpor-habitante-en-la-region>

⁵ I.e., 1000 people, 12 do not exceed the expected minimum income to meet the basic physical needs.

Graphic 2 - Uruguay:2 GDP per capita and Unemployment



Source: Economic Assessment - DGI

Creation: Author

1.2.CHARACTERISTICS OF MSMES IN URUGUAY

Micro, small and medium enterprises (MSMEs) represent 98% of the economic units in Uruguay and generate 49.6 percent of formal jobs in the country (Mendez, 2013). For the purpose of analyzing the factors that affect the business decisions of MSMEs, three studies were found, two of which have analyzed the specific case of Uruguay and the third is an international indicator.

1.2.1. National survey of commercial, industrial and services MSMEs (DINAPYME, 2013)

In the year 2012, the Ministry of industry, energy and mining (MIEM), through its National Directorate of artisans, small and medium enterprises (DINAPYME) carried out a nationwide survey of commercial, industrial and services MSMEs (DINAPYME, 2012). The survey contacted 2,029 MSMEs, representative of the 136,691 in Uruguay.

**Table 3 – types of company3
(according to size)**

Size	Personal	Annual sales (US\$) ^{1/}	N°	%
Microbusiness ^{a/}	1 to 4	< 259,140	114.456	84%
Small business	5 to 19	< 1,295,690	18.399	13%
Medium business	20 to 99	< 9,717,690	3.836	3%
TOTAL			136.691	100%

1 / Microenterprise: Sales <200,000 IU.

Small business: Sales <10,000,000 IU

Medium Business: Sales <75,000,000 IU

Indexed Units = IU = 2.5266 (Source: INE)

1 U.S. \$ = \$ 19.50 (Uruguayan pesos, Source: INE)

a / Includes 59,049 one-person businesses

Source: National Survey of MSMEs (2013)

Creation: Author

This survey revealed that:

- 53% are based in Montevideo. Services are the largest branch (53%), followed by trade (37%) and industries (10%). Most are recent: 64% began their activities after 2000.
- 58% of the directors of these companies are men. However, the participation of women in these positions has significantly increased since 2008: It went from around 30% to 40%. Entrepreneurs are younger than 4 years ago (only 11% are older than 60 years) and have high educational level: 83% have high-school or higher education.
- The most widespread type of MSMEs is the one-person business, which requires lower economic costs and fewer procedures: They are 70%.
- Most MSMEs sell to the domestic market. The main destination of sales is the local district for micro-enterprises (48%) and the rest of the country for the medium (45%).

- Regarding the use of information and communication technologies (ICTs), the possession of computers is similar to households (65%), although it is important to note that among small and medium enterprises it is much higher.
- MSMEs training increased from 35% to 40% in the last 4 years. On the other hand, the experiences of innovation decreased since the last survey; from 60% of employers it decreased in 2012 to 46%.

Table 4 - Company size according to Sector of activity and Region (%)

Company size	Sector of activity			Region		Total
	Industry	Commerce	Services	Montevideo	Interior	
Micro	72	86	85	82	85	84
Small	22	13	12	14	12	13
Medium	6	2	3	3	2	3
TOTAL	100	100	100	100	100	100

Source: National survey of MSMEs - DINAMYPE, 2012

Regarding the DGI or tax aspects impacting MSMEs, the MSMEs national survey only considers the question: In which public office did you experience the worst procedure? Surveyed MSMEs indicated that the DGI was the third worst public service (15%) after the BPS (24%) and the local municipalities (23%). Also when asked about which public offices were the most cumbersome to perform a procedure, answerers mentioned local municipalities (29%), the BPS (23%) and the DGI (16%). Interestingly, 37% of respondents claimed that they delegate the completion of their procedures (in general).

1.2.2. Informal MSMEs in Uruguay. Analysis of the cost of registration (DINAMYPE, 2008)

This study ordered by the DINAMYPE focuses on the underground economy in Uruguay, its causes and associated costs. The followings are some aspects and important conclusions of the study, especially those regarding the tax transaction costs concept:

- The formality costs are divided into: i) *legalization* costs (those that are incurred for legalizing (registering) a company); and (ii) *legal costs* (those that are permanently or periodically incurred to be legally operating).
- Legal costs, in turn, include direct costs (such as taxes, fees and contributions) and indirect costs (those related to the administrative and fiscal management).
- Tax compliance costs correspond to the so-called indirect costs of this study.

- A tax policy recommendation involves reducing both direct and indirect tax pressure. The direct pressure involves tools that tend to reduce the overall tax burden and the indirect would require introducing further simplification of the procedures for complying with tax laws.
- Reducing the indirect tax burden would result from simplifying procedures, especially to comply with VAT.
- It is recommended that small businesses taxation should allow a progressive change from Simplified Regime taxpayers to the General Regime, on an automatic and non-voluntary base.
- There are immediate and progressive measures to solve the problem of the underground economy, where formality costs (tax) are important.

1.2.3. Uruguay in the Doing Business / Paying taxes (IFC, 2013)

As an international level indicator, the *Doing Business* ranking of the IFC could be used to qualify the general characteristics of the business environment in which companies operates.

In 2013, Uruguay is located in 89th position of the ranking, notably in the areas of access to electricity (20), starting a business (39) and resolving insolvency (54). The areas where the country is lower than the Latin American averages are: Property registration (164), construction permits (158) and tax payments (140).

In relation to the payment of taxes, the specific position of Uruguay has improved by 24 positions in respects to the year 2012. According to the report, companies in Uruguay spend 310 hours a year to comply with tax requirements.⁶ These results are below the Latin America and Caribbean average.

⁶ Tax revenues (88 hours), social contribution (114 hours), value added tax (108 hours).

Table 5 - Doing Business (2012-2013)⁴**Doing Business 2012 – 2013**

Indicator	DB2012	DB2013
Ranking	87	89
Payments (number per year)	53	33
Time (hours per year)	336	310
Tax rate (%)	42	42

Source: Doing Business – Uruguay (2012, 2013)

In conclusion, regarding the situation of MSMEs in Uruguay the study recognizes that taxes are not the only factor impacting on decisions and behavior; however, there is opportunity to continue reducing the costs generated by these factors.

1.3. TAX SYSTEM AND INSTITUTIONAL FRAMEWORK

1.3.1. The new tax system of Uruguay

Within the commitments by the national Government, since the law N° 18.083 (Uruguay, 2006) a new tax system has been introduced (NST) in July 2007, with the following main objectives:

- To promote a more equitable distribution of the tax burden, with more participation from direct taxes.
- Improve the tax system efficiency.
- Promote productive investment adequately.

In this regard the previous tax system has been simplified, reducing the number of taxes and eliminating low-collection taxes; exceptions and existing exemptions were reviewed and the personal income tax was introduced.

This last reform sought equity in the distribution of the tax burden, by making all persons who obtain income from Uruguayan source of any kind contribute to financing the expenses of the State.

Thus the DGI went from managing a population of taxpayers which were mainly companies to a new population, which are mainly the personal income taxpayers (IRPF). Before the reform of the tax system there were approximately 215,000 taxpayers, and more than 550,000 have registered since the reform. The taxpayer population grew more than 250%.

The taxes in the new tax system in Uruguay are:

- Consumption taxes
 - The value added tax (VAT)
 - The Specific Internal Tax (IMESI)

- Taxes on incomes and profits
 - Tax on the income of economic activities (IRAE)
 - Tax on the sale of agricultural goods (IMEBA)
 - Personal Income Tax (IRPF)
 - Social Security Assistance Tax (IASS)
 - Tax on the income of non-residents (IRNR)

- Property taxes
 - Wealth tax
 - Heritage Tax (ITP)

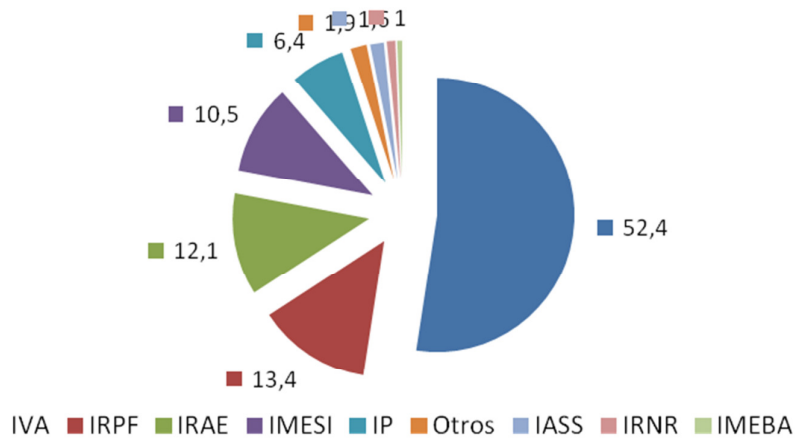
Table 6 - description of the tax system in Uruguay⁵

Tax	Tax base	Rate
Value added tax (VAT)	Levied on the internal movement of goods, provision of services, introduction of goods into the country and added value of real estate.	22% 10% Exemptions
Specific internal tax (IMESI)	Tax the first transfer of certain goods performed by their manufacturers and importers. Affected products: Alcoholic and non-alcoholic beverages, cosmetics, tobacco, vehicles, lubricants and greases, fuels.	
Tax on the income of economic activities (IRAE)	Tax business income, usually assimilated to the real estate tax alienation those new in Gravel business income, assimilated by habitually in the alienation of real estate and those included in personal income tax (option or mandatory) included in personal income tax (option or mandatory)	25% Exemptions: * small businesses 305.000 TU * Individual Single tax 152.500 TU and 305.000 TU for companies * Promotion of investments
Personal income tax (IRPF)	Tax capital income or Uruguayan source income received by residents.	Scale of progressive rates for labor income

Tax	Tax base	Rate
		and rates 12%, 7% for incomes of capital according to its nature.
Wealth tax	Tax the ownership of assets within the national territory, this being the difference between assets and liabilities on Dec. 31 for individuals, or at the end of tax period for legal entities.	Individuals There is a non-taxable minimum (MNI) 2.383.000 for 2011 and progressive rates Legal entities: There is no MNI, single rate 1.5%
Tax on the sale of agricultural goods (IMEBA)	Tax the first sales made by agricultural producers to the following actors, which retain the corresponding IMEBA: <ul style="list-style-type: none"> • IRAE taxpayers who are not farmers. • Municipal administrations • State agencies 	

The following chart shows the composition of the various taxes of the new Uruguayan tax system in total gross revenue for the year 2012.

Graph 3 - composition of the Total gross revenues (2012)3



Source: DGI (February, 2013)

Created by the author

It is clear that the composition of the tax collection in Uruguay is strongly concentrated in the VAT collection (52.4%) followed by the personal income tax and the IRAE with 13.4% and 12.1% respectively.

1.3.2. The General taxation Directorate (DGI) of Uruguay

The General Tax Directorate (DGI) is part of the Ministry of economy and finance (MEF) of Uruguay, responsible for the administration of the internal revenue of the country. The DGI aims to collect the State resources from the internal tax system through the effective application of regulations, promoting voluntary compliance, fighting fraud and tax non-compliance, within a framework of respect for the taxpayer rights, acting with integrity, efficiency, and professionalism in order to provide a good service to the citizen.

The DGI budget comes from the allocation that MEF performs on a five-year basis for the period of the respective Government.

Decree N ° 166/005 (30 May 2005) approved the restructuring of the General Tax Directorate as well as the exclusive performance regime of the DGI officials.

The first level of the organizational structure includes the General Directorate, with seven divisions: Collection and CE, control, administration, ITC, technical, Fiscal, Interior and Large Taxpayers. Three consultancies (tax, economic and organization planning and Control), internal auditing and the administrative technical support department also depend of the General direction.

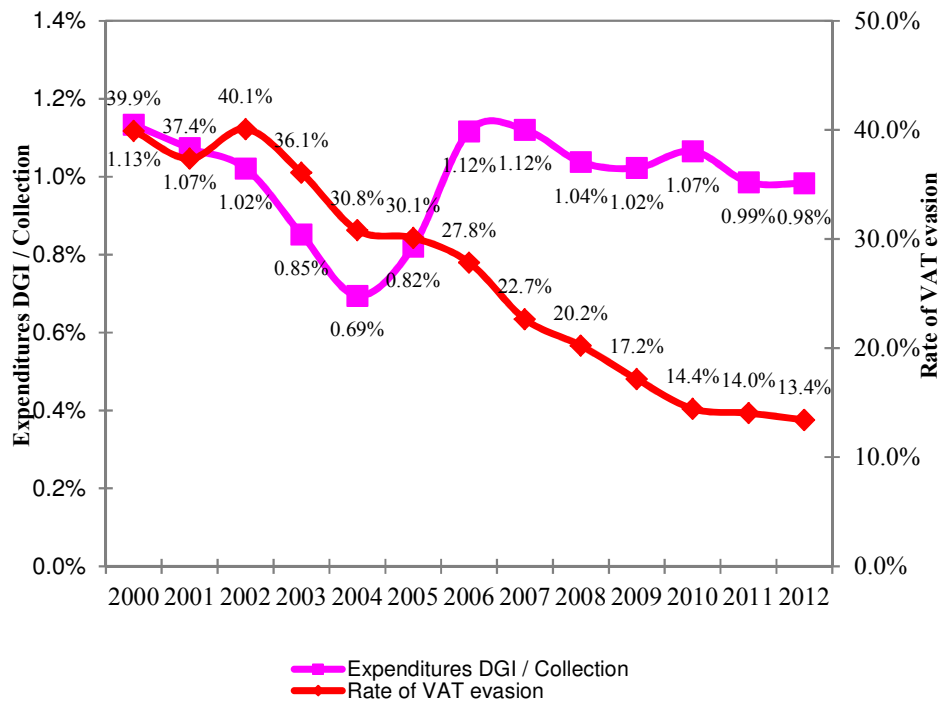
According to the tax administration processes, the *substantive functions* are assigned to the Revenue, control, technical fiscal, Interior and Large Taxpayers Divisions.

The support functions required for the effective and efficient performance of the substantive tasks are mainly allocated to the divisions of administration and ICT in regards to the management of human, material and technological resources available.

The DGI has its headquarters in Montevideo and offices in 44 locations distributed throughout the national territory.

The DGI performs regularly estimates of VAT Evasion in order to assess the degree of effectiveness of its work and the consistency between the indicator and the economic activity level. The 2000-2012 Period shows a significant and sustained decline.

Graph 4 – Evasion levels vs.4 Costs of administration



1.3.3. Tax evasion estimates.

Tax evasion or tax avoidance is a deliberate action to avoid the payment of taxes established by law. It is an illegal activity. It must be distinguished from the tax avoidance, which refers to actions seeking to avoid paying taxes but using maneuvers allowed by the law or by lack of regulation.

The fight against evasion is one of the main actions carried out by the DGI in order to effectively implement the tax laws and promote voluntary compliance.

In that sense, economic advice from the DGI Office has estimated the evasion of the tax income (2000-2010) as well as of the VAT (2000-2012).

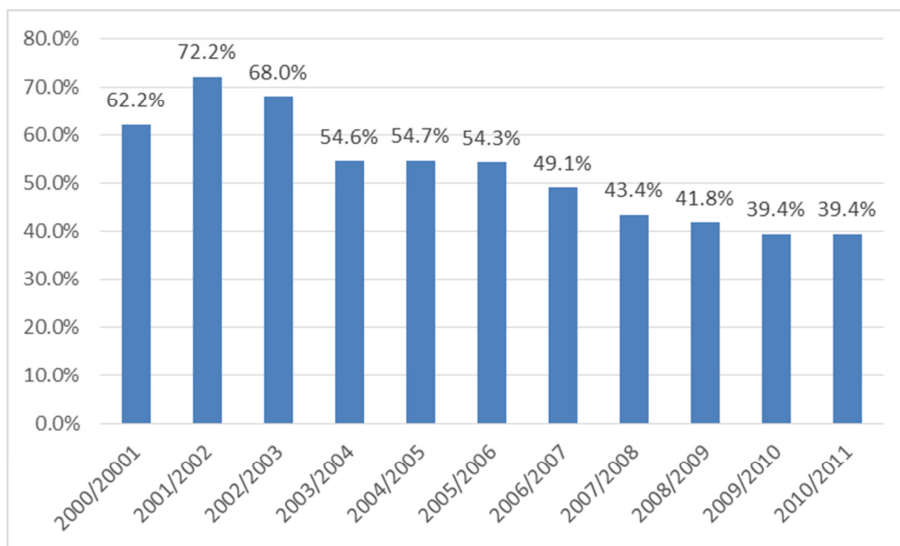
a. Evasion of the income tax of legal entities (IRAE)

In the IRAE, to calculate the potential collection, the taxable amount must be approximated with the macroeconomic aggregate, which is the operating surplus. The taxable amount is the maximum between the calculation of income tax according to the tax regulations and 0 (since in case of obtaining a negative income, the taxpayer does not submit tax return (without prejudice to the mandatory minimum)).

So the surplus of exploitation approaching to the taxable amount of the tax, is you must make some “changes” to the same, i.e., not considered that surplus that comes from exempt income, and tax adjustments provided for in the regulations, not supported earnings and incremental deductions.⁷⁸

Figure 5 shows the behavior of the IRAE evasion during the period 2000-2011.

Figure 5 - IRAE Evasion in Uruguay (2000-2011)⁵
(% of potential revenue, mobile biennium)



Source: Economic Assessment - DGI (2013)

Elaboration: Author

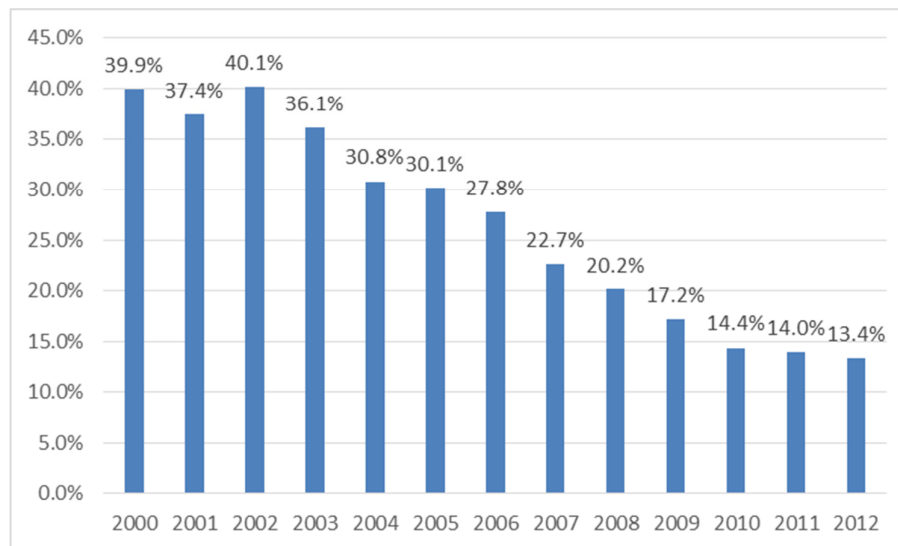
B. Value added tax (VAT) evasion

As shown in chart 6, one of the most important achievements of the DGI, in the challenge of improving the voluntary compliance of taxpayers, has been the sustained reduction of VAT evasion over the last few years.

⁷ Exempt income: Free zones users, wood producers, contributors to the Literal E, contributing to other taxes not included in the IRIC/IRA E .

⁸ They correspond to costs that can be deducted one and half time their actual amount: training of staff in priority areas, fees charges for technicians assistance in priority areas, fees for quality certification or to obtain the accreditation of testing laboratories, expenses for the incorporation of animal genetic material, expenditure on software services and promotion of employment.

**Graph 6 - VAT Evasion in Uruguay (2000-2012)⁶
(% of potential VAT collection)**



Source: Economic Assessment - DGI (2013)

Elaboration: Author

1.4. STRATEGIES OR REFORMS TOWARDS TAX SIMPLIFICATION

1.4.1. Tax system adjustments

The most important strategy oriented towards the tax simplification is the comprehensive reform of the tax system (see section 1.3.1. for further details), which consists mainly of:

- Elimination of seventeen (17) taxes by its low collection and high cost of Administration (collected little more than 4% of tax revenues).
- Elimination of FVAT exemptions and reduction of aliquots.
- In general, the entire system was rationalized, contributing to its simplification.

These measures involved a decision at the highest level of the Government and its aim was not collecting more but collecting more equitably.⁹

In the field of the DGI, part of the system of tax withholding tax in some cases contributes to simplification, particularly when there is an option for the taxpayer that the withholding can be valid as final tax: that allows this to be exonerated from

⁹ Taken from "Uruguay. Taxes on property and inequality. Vice Minister Luis Porto". http://www.itdweb.org/TaxInequalityConference/Documents/Presentations/VIII.1_3_LUIS_PORTO_Indi_a_ICIR_Porto.pdf

submitting a return, and in fact, releases him from formal obligations to the DGI. This occurs, for example, in several chapters of the personal income tax by capital income al, where the withholding system is quite extended. It also occurs in personal income tax from salaries.

Such situations also take place in companies. For example, in IMEBA withholdings (the tax on sales of agricultural goods) in some cases constitute the final tax for the taxpayer subject to the withholding.

In addition, the tax legislation of the Uruguay has designed a simplified VAT regime called VAT minimum that applies to taxpayers whose annual income does not exceed the amount of three hundred five thousand indexed units (UI 305,000).¹⁰¹¹

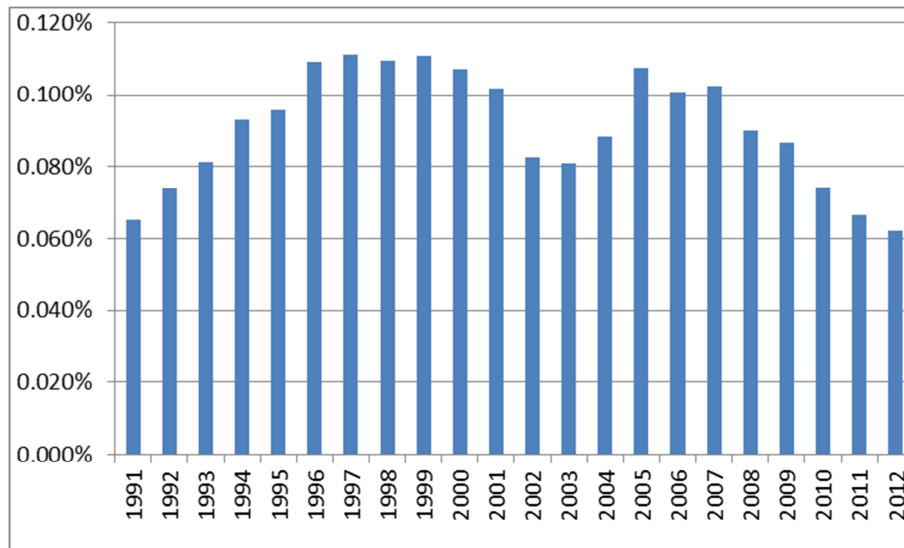
These taxpayers must make a minimum monthly payment of two thousand hundred and ten Uruguayan pesos (\$ 2,110 pesos in 2012) in respect of value added tax. It should be noted that these taxpayers are exempt from the economic activities income tax (IRAE) and the business heritage tax. However, they pay the special social security contributions.

They include a gradual contribution to this regime, whereby the same taxpayers pay only 25% of the fee during the first fiscal year after being established, 50% during the second year, and 100% from the third year.

Graph 7 shows the collection behavior of this simplified scheme and its sustained growth from the year 2002 can be seen. However, it constitutes approximately a 0.34% of total tax revenues, because of its simple and low determination and payment, and it aims mainly to support the business registration.

¹⁰ The new regime regulated by law N ° 18.568, falls within a series of measures designed to promote the consolidation of business formalization process. As expressed in the explanatory statement, this is particularly relevant in the case of the micro and small enterprise, not only because of their importance in the economic activity, but also for their importance for shaping networks of social cohesion. It is a benefit similar to which the law 17.436 (17.12. 2001), known as “Micro-enterprise” ordered.

¹¹ Calculated with the indexed unit on January 1 of each year (On 01.01.2012 the IU is 2.3174 pesos).

Graph 7 - Collection of minimum VAT (as % of GDP)

Until July 2007: IRIC lit E art.33 T4TO 1996

Since July 2007: VAT minimum of taxpayers included in lit. E art. 52 T.4 T.O. 1996

Source: Economic Assessment- DGI (2013)

Prepared by: Author

1.4.2. Electronic/virtual solutions implemented to reduce tax compliance costs



Procedures have been designed, both on the web and with a call center, including, request for good standing certificate (certifying to be up to date with tax obligations), modification of registration data, payment consultations and deductions. Of course, also income tax return and payments can be made via the web.

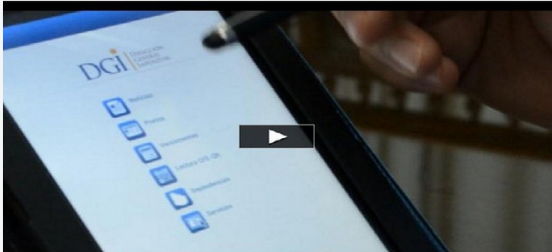
Presently a solution for smart phones is being developed, including various forms of queries and payments.

On the other hand, tax return drafts are annually sent of income tax and IASS taxpayers. These are available on the web and can be sent online, which prevents the making of the return and its subsequent submission.

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CHAPTER 2

2. TAX TRANSACTION COSTS IN URUGUAY

METHODOLOGICAL CONSIDERATIONS FOR THE CASE STUDY

The study of the tax transaction costs has 2 components: The administrative cost and the cost of compliance. Administrative costs are those that are incurred by the State to administer the tax system, while compliance costs are those that are incurred by taxpayers to comply with the tax system.

The tax-transaction costs consist of:

$$\text{TTC} = \text{CC} + \text{AC}$$

Where:

TTC = tax transaction costs

CC = cost of taxpayer compliance

AC = administrative costs of the DGI

The measurement process, according to the model proposed in the study of the CIAT - UN - DESA, is as follows:

Phases of the study of the TTC measurement in SMEs in Uruguay	
Phase 0: Initial	
Identification of the general context, detailed comprehension of the tax regulatory and administrative framework to be analyzed. It is important to understand the institutional framework, process maturity and political support for a possible tax simplification reform.	
Phase 1: Preparation	
Definition of the financial resources for the project as well as education and training of the local technical team. At this stage, it is important to analyze the financial viability of hiring of the external provider that would conduct the survey, as well as the quality of internal information that allows the determination of the TTC:	
Phase 2: Analysis	
Step 1	Identification of the obligations of information, requirements and tax transactions as well as major internal indicators of the DGI tax cycle.
Step 2	Identification of rules relating to the tax and the procedure
Step 3	Identification of relevant enterprises segments to study
Step 4	Identification of the population and frequency of the transaction
Step 5	Identification of the related normative.
Phase 3: Measurement	
Step 6	Measurement of compliance costs
Step 7	Measurement of administrative costs
Phase 4: Reports	
Step 8	Extrapolating data obtained nationally
Step 9	Final report of the results and determination of the simplification plan

Source: Measuring the tax transaction costs on small and medium-sized enterprises

2.1.1. Definition of Micro, small and medium enterprises (MSMEs)

The National Directorate of craftworks, small and medium-sized enterprises of the MIEM (Ministry of industry, energy and mining) is responsible for the policies of promotion or encouragement of the universe of companies known as MSME.

The criterion of classification of companies has been established in Decree No. 504/07 (Uruguay, 2007) and is shown in table 7.

Table 7 - classification of companies and criteria 6

Type of company	Personnel employed (*)	Annual sales excluding VAT must not exceed the equivalent of :	Annual sales in Pesos and US \$ (annual average UI)
Micro business	1 to 4 people	2,000,000 UI	4.8 mill (\$ 0.2 mill)
Small business	5 to 19 people	10,000,000 IU	24.2 mill (\$ 1.2 mill)
Medium-sized businesses	20 to 99 people	75.000.000 IU	181.4 mill (\$ 8.9 mill)

IU: Indexed units

(*) Personnel employed for this purpose include both those people employed in the company as owners or partners for which are made effective contributions to the Social Insurance.

Annual turnover is understood as net sales excluding value-added tax after returns and/or bonuses.

The measurement of transaction costs should consider the same definition of MSMEs as established by the MIEM. The taxpayers' distribution according to this categorization can be seen in table 8, where 65% approx. are Micro companies and 26% small companies.

Table 1 and 2 - Number of taxpayers according to size7

Type of company	Taxpayers	
	Quantity	%
Micro	56,239	65%
Small	22,446	26%
Medium	7,010	8%
Large	1,380	2%
	87,075	100%

Note: According to payments IRAE 2009

Source: Economic Assessment-DGI

It includes the companies for which both employment and sales data is available.

2.1.2 Taxpayers survey

The development of the survey took into consideration the CIAT -UN proposal for the methodology for measuring the transaction costs of transaction in medium-sized and small enterprises. This survey was adjusted to the particular characteristics of the tax system of Uruguay.

The adjustment of the Survey was performed by officers of the Economic Assessment Office and Taxpayer Service of the DGI, whose expertise and operational knowledge of taxpayers were essential not only for the vocabulary and terminology, but also for the extent and scope of the questions. The survey is annexed to this document.

Criteria for the sample selection

The following criteria for the definition of the universe of taxpayers and therefore for the selection of the sample were agreed with the Local team (Economic Advisory Office):

- a) To belong to the taxpayers categories: CEDE, NO CEDE and small businesses.

The concept of small business is defined in the VAT Act specifically to refer to those who are affected to the simple VAT and income tax regime.

CEDE taxpayers are a group of taxpayers defined in legislation to be subjected to a more rigorous or strict; they are those who follow large taxpayers in ranking of importance¹² Next, the rest of taxpayers who are called NO CEDE; i.e., which are not under CEDE control.

These companies must submit affidavits each month with respect to the VAT payment and withholding and an annual affidavit with the balance. In such cases, a greater volume of accounting/tax work is needed for the compliance with of tax obligations.

Table 9 - categories of taxpayers selected for the study8

Taxpayer type	Number	%
Large taxpayers	301	0,13%
CEDE	9.827	4,16%
NO CEDE	197.687	83,66%
Small businesses	28.497	12,06%
TOTAL	236.312	100,00%

Source: DGI (2013)

Creation: Author

¹² CEDE: Special control of companies. They are those that, by their rotation or sales volume, are included by the DGI in a special group for the purpose of greater control

b) To show ACTIVITY

The Local team suggested defining an active taxpayer condition, including the taxpayers who, during the year 2012, paid regular presentations/payments to the DGI. This will ensure to survey taxpayers who can answer the questions on the survey and provide useful information.

c) Exclude taxpayers subject to the IMEBA (belonging to the agricultural activity and of very small size). It is worth mentioning that some taxpayers subject to VAT and IRAE (general regime) belong to the agricultural sector but due to their size they are indistinguishable from any other nonagricultural taxpayer.

d) The criterion of established residence, i.e. designated by the taxpayer for the control of the DGI is selected rather than the tax domicile where economic activities are carried out.

e) There is a strong concentration of taxpayers in Montevideo; however, the online filling of the survey filling would reach taxpayers outside Montevideo. This will not be a constraint for the selection of taxpayers for the sample.

Survey: adjustment and final format

The survey presented in the methodology document was adapted to legislation and reality of Uruguay. It was mainly reviewed by the areas of taxpayer assistance and the Local Economic Advice Team and through meetings with other officials with experience.

The main adjustments made to the survey were as follows;

- To include a question in relation to the usefulness of the Unique Certificate or Annual certificate and through which channel they are obtained.¹³
- Adapt the taxes to the existing tax regime in Uruguay.

¹³It is a necessary requirement to perform many procedures and operations so that the company can operate, import, make collections, presented in tenders, obtaining, or renew Bank loans. The law states the effects of the suspension of the DGI unique certificate:

“A) ... This certificate shall accredit that its owners have satisfied the payment of taxes administered by the said organism, which are not reached by them, or that they have the term agreed to do so.

To be considered in good standing by the DGI, the taxpayer must not have its unique certificate disbarred or suspended.

- The simplified regime was not mentioned but rather to the so-called minimum VAT (literal E of article 52 of Title 4 of the T.O 1996).
- The monetary unit of the survey would be the Uruguayan Peso (\$).
- COLLECTION NETWORKS were included as place for submitting returns and/or payments, considering them as a specific reality of Uruguay.

The final version of the survey can be found in annex 2,

Sample size

The survey was developed in an online form and therefore is not limited to a particular city or town and there is no restriction on location.

The methodology of simple random sampling was adopted, but in 3 segments, CEDE, NO CEDE and minimum VAT. The formula for determination of the sample size for each segment was as follows:

$$N = \frac{P \cdot \alpha^2 \cdot Z^2}{(P - 1) \cdot e^2 + \alpha^2 \cdot Z^2}$$

Where:

$$P = 236,312$$

$$A = 0.5$$

$$Z = 95\%$$

$$e = +/-3.5\%$$

$$N = 750$$

Thus, the sample gave as a result for the study of at least 250 valid surveys for each segment; that is, a total of 750 valid surveys.

2.3 TAX COMPLIANCE COST MEASUREMENT

According to the concept, the component tax compliance cost, is possible to express in the following way:

$$CC = IC + EC$$

Where

CC = Taxpayer Tax Compliance Cost

IC = internal costs

EC = external costs

The cost of compliance is the sum of the internal and external costs. Internal costs include labor and non-labor costs.

Direct labor costs means those costs that the company, using own resources as the company's human resources, and through which such resource receives a payment for the work developed, uses to comply with tax obligations. Internal costs include also non-labor costs incurred by the company.

In addition, we define the external costs such as those which the company pays to third parties to comply with the tax liability. To use a third party supposes a charge or payment for the service provided.

One of the main difficulties in the measurement of compliance costs is to determine the time (hours per month) used by taxpayers to comply with their tax obligations. Next, the task of converting the time into monetary values will depend on the successful estimation on the amount of hours worked and the value to be set for every hour.

Internal costs, resulting from the work of the internal staff of the company, are calculated according to the time that the company internal resources invest to develop the required tasks for tax compliance.

Therefore, we formalized the internal costs in the following way:

$$IC = T * V + AE$$

Where:

CI = internal costs of the taxpayer

T = time (in hours per year)

V = value of the time

AE = administrative expenses

2.3.1. Internal or direct costs

Internal or direct costs are the component of tax compliance costs corresponding to the costs incurred by the company using its own resources to comply with its tax obligations.

Number of hours calculation (T A)

The survey considered the following processes as part of direct costs and the surveyed companies would report these times in terms of hours.

Diagram 1 - direct costs - processes and reported frequency1

Process	Frequency
Time to get informed / learn about the tax obligations of your business	year
Time to register with the DGI or update your tax information	year
Time for filling returns	month
Time to submit the returns	month
Time for tax obligations payment	month
Time to meet the control requirements	year
Time to prepare the return request	year
Time for appeal to the DGI	year

In relation to the forms submission, the survey asked the taxpayer how long it took to fill them, submit and pay for each one of the monthly, quarterly and annual tax obligations.

Thus, if a taxpayer mentioned that the process of filling in a return takes a number of hours a month, it was multiplied by 12 to thus obtain the annual data.

These times were accumulated and extrapolated to the annual period using the expansion factor for each type of taxpayer and tax regime. The expansion factor is interpreted as the number of companies in the population, which represents a company in the sample.

The estimate of the total given to a variable is obtained, first, weighing the value of the variable by its expansion factor and then adding all the companies in the sample.

Also, in regard to process returns, appeals to the DGI and control actions, it is assumed that this process only occurs once a year, and therefore the data of the survey corresponds to the annual period.

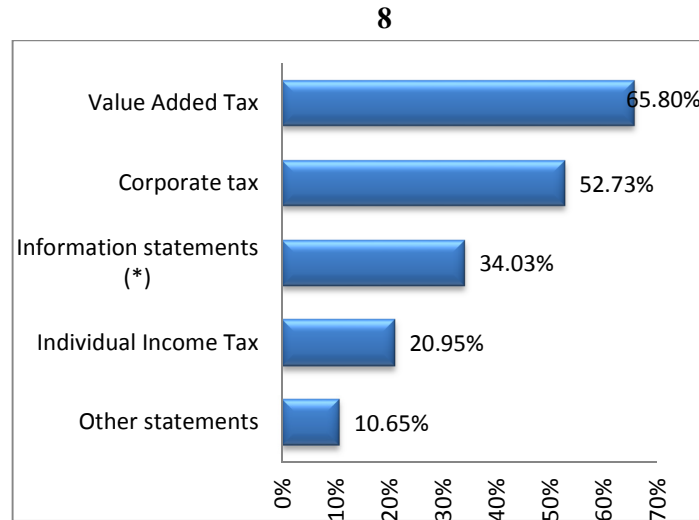
In that sense, the survey has allowed to quantify the time needed in regular activities linked to the fulfillment of tax obligations.

Table 10 - time for the accounting records of transactions according to the position of the respondent taxpayer⁹

Time it takes in a month for the recording of business and financial transactions	What is your position?					Total
	External tax advisor	Owner	Employee	Manager	Internal tax responsible	
Less than 1 hour	4,95%	11,55%	3,23%	0,00%	6,67%	6,87%
1 hour	9,67%	18,77%	4,84%	2,86%	13,33%	12,29%
between 1 y 2 hours	8,73%	13,72%	8,06%	0,00%	6,67%	9,63%
between 2 y 3 hours	6,37%	6,86%	1,61%	0,00%	1,90%	5,43%
between 3 y 6 hours	12,97%	15,88%	6,45%	8,57%	20,00%	14,06%
More than 6 hours	57,31%	33,21%	75,81%	88,57%	51,43%	51,72%
Total	100%	100%	100%	100%	100%	100%

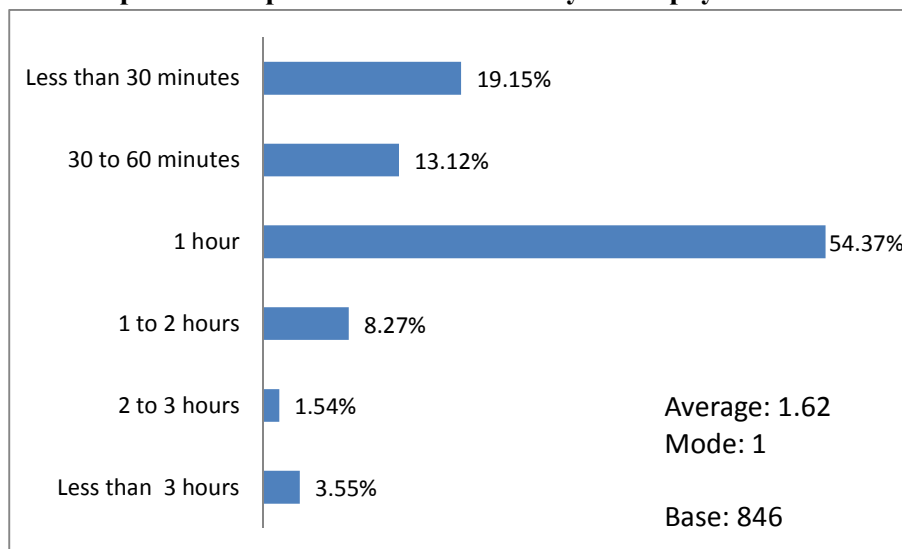
Base	424	277	62	35	105	903
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As you can be seen in table 10, approximately 52% of respondents takes more than 6 hours to make the accounting records of the transactions of their business, this is so for those who serve as external tax advisor and tax responsible (within the company).

Chart 8 - Average time for completing the tax forms (for taxes)

Average time in hours: VAT 2.28 – CT 5.15 – IS 2.35 – IT 3.91 – Others 2.94

On the other hand, the graph 8 shows that the average time for filling in the forms for the Economic Activity Income Tax (IRAE in Spanish) is approximately 5.15 hours and in the case of VAT it is 2.28 hours. At the same time, it can be seen that the VAT and the IRAE are taxes which taxpayers surveyed report they are required to fill in a statement form.

Graph 9 - time per month intended only to the payment of taxes⁹

Finally, for 86% of taxpayers, paying their taxes does not take more than 1 hour, being the average 1.62 hours. However, there are still some taxpayers who claim it takes more than 1 hour and up to more than 3 hours to complete the process.

Calculation of the value of time (V A)

For the purpose of quantifying internal or direct costs, i.e., to assign a value in currency units, it is essential to choose the economic value per hour, which was the salary of work of a professional who is responsible for the work of the maintaining the accounting records, filling the returns and process the payments.

For this purpose it resorted to the continuous household survey, version 2012, which identified the occupations related to the work described above, excluding all those who were at a management level or coordination. In other words, a mid-level office job was sought to perform the mentioned tasks.

We used the average value which was \$ 125 pesos per hour (\$ 6.25 per hour). This is the value used to quantify hours aimed at complying with tax obligations with use of the company's own resources.

2.3.2 External or indirect costs

External or indirect costs is the component of tax compliance costs corresponding to the costs incurred by the company to employ the services of third parties to comply with their tax obligations.

The Online survey considered the following processes as part of indirect costs and therefore companies would report the cost in Uruguayan pesos:

Diagram 2 - Indirect costs - processes and reported frequency2

Process	Frequency
Regular spending bills, forms, accounting records, software, stamps, etc.	Month
Expenditure to meet the tax Control requirement	Year
Expenditure for preparing the tax refund application	Year
Expenditure for appeal to the DGI	Year
External advisor for other services expenditure	Month

2.3.3. Total tax compliance costs

On the basis of the sampling data, the evaluations for each of the components by tax process consolidating all hours multiplied by its respective value, adding costs and external costs to the taxpayers of the sample. The calculations were made for each population subset i.e. regime type and type of company.

The sampling data were extrapolated with expansion factors calculated using the sample information divided by the total population subject to study, resulting in the following values.¹⁴

Considering all the activities with the company's own resources, direct costs in terms of hours (per year) for the compliance with tax obligations are shown in table 11.

Table 11 - cost of tax compliance - internal times -TA10

(Hours per year)

Size	Hours/year
Micro business	135
Small business	269
Medium business	319

This reflects an average number of hours per year 241 hours for tax obligation compliance. The determination of the total amount (total cost) is the sum of single of each of the subsets of the population.

Calculation of the total cost of compliance in Uruguay for the year 2012: The cost of the companies in the sample was multiplied by its expansion factor, showing as a result that the Uruguay tax system generates a cost of tax compliance up to \$662,7 million, representing 1.31% of the country's GDP.

¹⁴ The expansion factor for a study based on a sample is the figure that acting as a multiplier allows sampling data to population, i.e. to expand the sample. This factor is calculated on the basis of the probability of selection of the elements in the sample, the expansion factor being the inverse or reciprocal of the elements selection probability

**Table 12 - Annual tax compliance costs 11
(Thousands US \$)**

Regime	Company size			Total
	Micro	Small	Medium	
CEDE	13,872	24,826	30,415	69,113
NO CEDE	362,741	144,777	45,214	552,732
Minimum VAT	29,226	11,664	0	40,890
TOTAL	405,839	181,267	75,629	662,735

Source: CIAT-UN DESA Survey

If we analyze the information by type of company, micro-enterprises, given their number and level of concentration, represent a cost of 446 million dollars, with a participation of 0.80% of GDP. Finally, small and medium-sized enterprises represented the 0.36% and 0.15%, respectively.

Table 13 - Tax compliance costs- Uruguay (% of GDP)12;Error! Secuencia no especificada.

Regime	Company size			Total
	Micro	Small	Medium	
CEDE	0.03	0.05	0.06	0.14
NO CEDE	0.72	0.29	0.09	1.09
Minimum VAT	0.06	0.02	0.00	0.08
TOTAL	0.80	0.36	0.15	1.31

Source: CIAT-UN DESA survey

The total sales of the sample based on the averages for each of the ranges were calculated, weighted by the number of companies from the entire population. Thus, the compliance costs represented a 1.05% of total sales (average weighted according to the total number of taxpayers by size of company). As you can see, in the segment of small businesses, the compliance costs represents 1.21% of total sales, while for small and medium they accounted for 0.28% and 0.03% respectively.

Table 14 - costs of tax compliance - Uruguay (% sales) 13

Regime	Company size		
	Micro	Small	Medium
CEDE	0.48%	0.07%	0.01%
NO CEDE	0.65%	0.19%	0.02%
Minimum VAT	0.09%	0.01%	0.00%
TOTAL	1.21%	0.28%	0.03%

Source: CIAT-UN DESA survey

Thus, the compliance costs for companies are regressive in Uruguay, being more significant for micro enterprises than for medium-sized companies.¹⁵

Table 15 summarizes the costs of tax compliance for the year 2012 in Uruguay, for the micro, small and medium enterprises. It can be observed that burden of these costs is proportionally decreasing in terms of annual sales, i.e. show regressivity; they are greater proportionately for smaller companies.

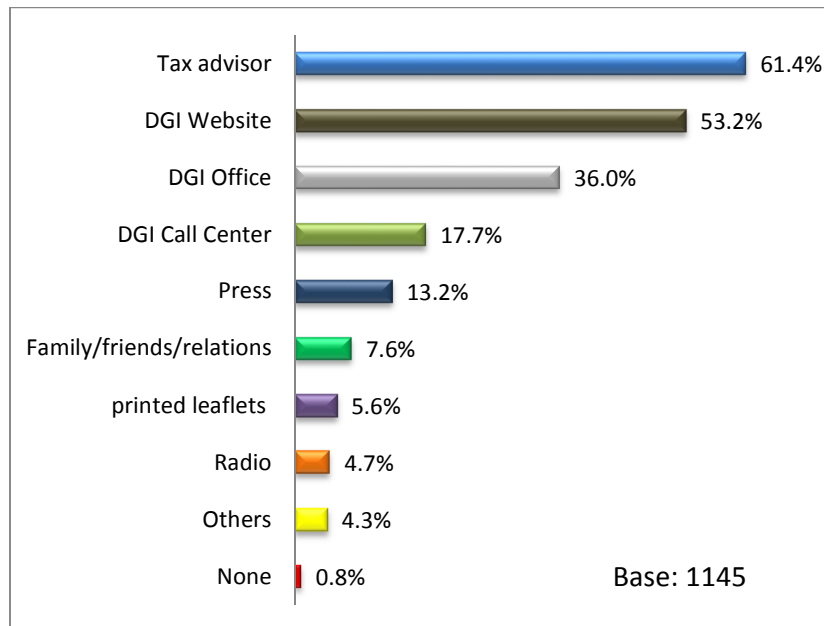
Table 15 – Costs of tax compliance (per cent of GDP and annual sales)14

	% GDP 2012	% Annual sales
Microenterprise	0.80	1.21
Small business	0.36	0.28
Medium-sized enterprises	0.15	0.03

According to the results of the survey, 64% of the observed population responded that they hire a paid external advisor to meet the different tax processes.

Thus, we could infer that the larger the company, higher is the expenditure on tax advisors given the greater complexity of cases. On the other hand, the role of external consultants whose ability to tackle the tax system is greater than the taxpayer either by formation (tax accounting) or by experience in the matter, could be also regulated. Thus, the tax administration of the country should find a balance which should be equal to the opportunity cost of the taxpayer.

¹⁵ Although the term regressive is associated with taxes. For the purpose of this study, we use it to show that the bigger the size of the company, the smaller its transaction cost.

Graph 10 - Methods used to obtain tax information¹⁰

When the taxpayer was asked the reason for hiring the services of an external consultant, two reasons were identified mostly, “Advisor provides information in greater detail than the DGI” and for “lack of time” to go to the DGI to request information.

These results provide an indication that there is a field of action within the tax administration to provide capabilities to taxpayers so that the hiring of an external consultant would no longer be necessary.

The next group highlighted the fact that “it’s cheaper to hire a tax advisor”. This group believes that their opportunity cost is high, so they prefer to hire someone to do it.

Table 16 - reasons to hire third-party services 15

	First reason	Second reason	Third reason
Lack of information at the DGI office	3,6%	2,3%	3,3%
Lack of information on the web of the DGI	0,7%	2,1%	2,0%
Lack of information at the Call Center of the DGI	0,8%	2,1%	2,6%
The DGI officers don't answer the queries	5,5%	7,5%	3,5%
The tax assessor answer more in detail than the DGI	28,3%	11,1%	4,4%
Lack of time to go to the DGI to request information	17,2%	12,4%	6,4%
Hiring a tax advisor is less expensive	4,0%	4,1%	4,1%
NK/NA	1,2%	1,2%	1,8%
Other	4,3%	3,6%	3,9%
Base:	758	535	369

There is an interesting fact that the tax advisor fills a gap found by taxpayers who find limitations in the information provided by the tax administration. In this sense, there are opportunities for improvement and for a reduction in the external costs of the taxpayer. Be more effective in the training and deployment of the tax system is an opportunity that could generate a direct relationship between further training and lower cost of compliance for the taxpayer because that would require less external advisers.

Information and registration

The process information and registration includes 3 sub-processes for taxpayers. These are: Registration or updating data, training on tax matters and finally the accounting records. For each of the cases, in the development of the survey, taxpayers were consulted about how many hours they spent on each of these activities.

In terms of time for training or reporting tax obligations, regardless the type of registration and type of taxpayer regime of it is observed that for 32% it takes less than half an hour and 22% report it takes more than 3 hours. Generally fairly similar proportions of respondents can be seen at every period of time consulted.

Table 17 - time to learn / get trained for tax obligations

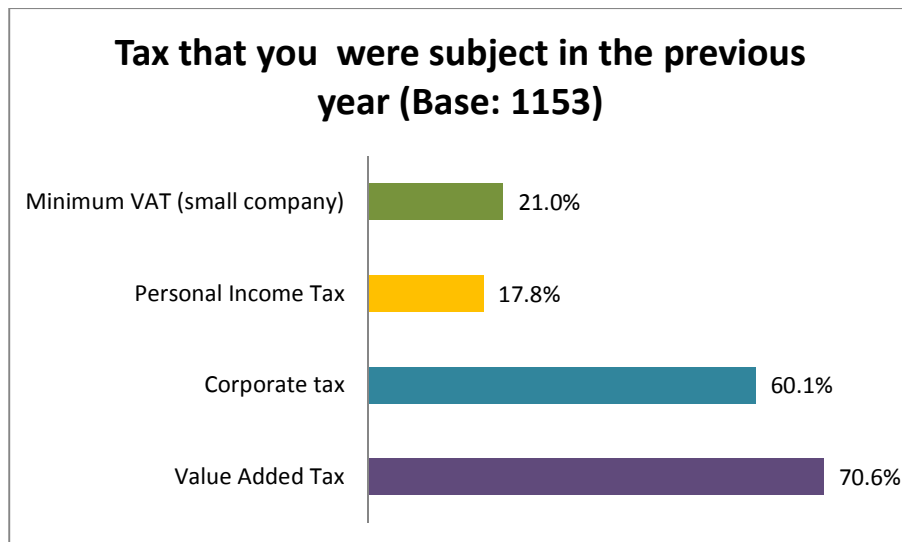
Time to get information or training in tax obligations	What is your position?					Total
	External tax advisor	Owner	Employee	Manager	Tax responsible	
Less than half an hour	31,75%	34,42%	28,30%	36,11%	24,11%	31,59%
From 30 min to 1 hour	11,64%	17,39%	11,32%	2,78%	14,29%	13,52%
1 hour	8,47%	9,06%	11,32%	8,33%	16,96%	10,02%
Between 1 and 2 hours	17,46%	16,67%	13,21%	13,89%	19,64%	17,02%
Between 2 and 3 hours	6,35%	4,35%	5,66%	5,56%	6,25%	5,59%
More than 3 hours	24,34%	18,12%	30,19%	33,33%	18,75%	22,26%
Total	100%	100%	100%	100%	100%	100%

Base	378	276	53	36	112	855
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16

Taxpayers were asked which taxes they were subject during the previous year. 21% state to be in the VAT Minimum regime, while 71% and 60% stated to be subject to VAT and IRAE, respectively.

Graph 11 - taxes you were subject to during the previous year 11



In relation to the information broken down by economic sector, it is worth noting that the distribution is fairly homogeneous. I.e. a concentration of the simplified in the economic sectors cannot be noted, except for the artisans for whom it is 100%.

Graph 12 - percentage distribution of taxes affecting business vs. economic sector
12

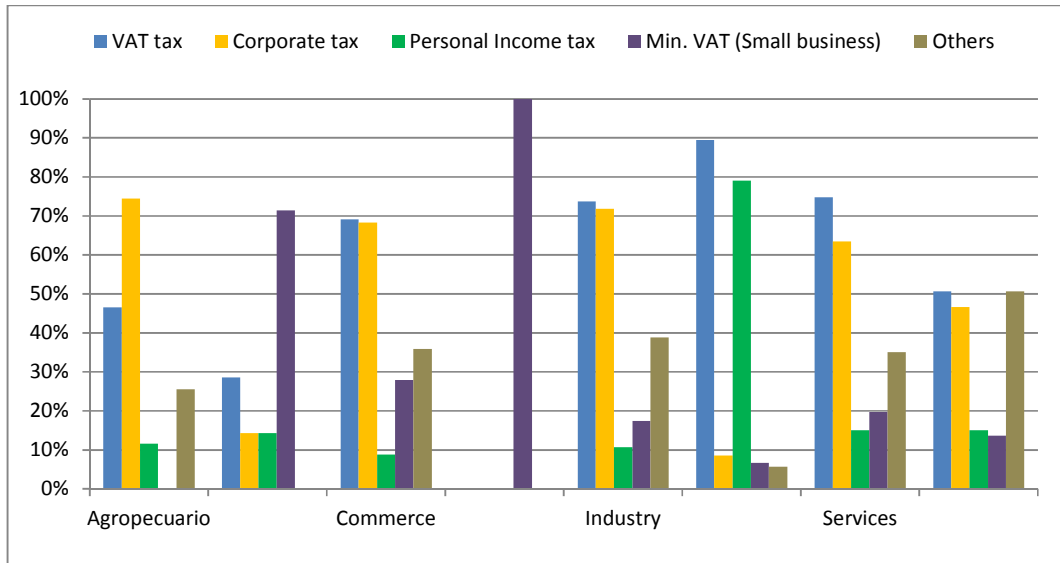


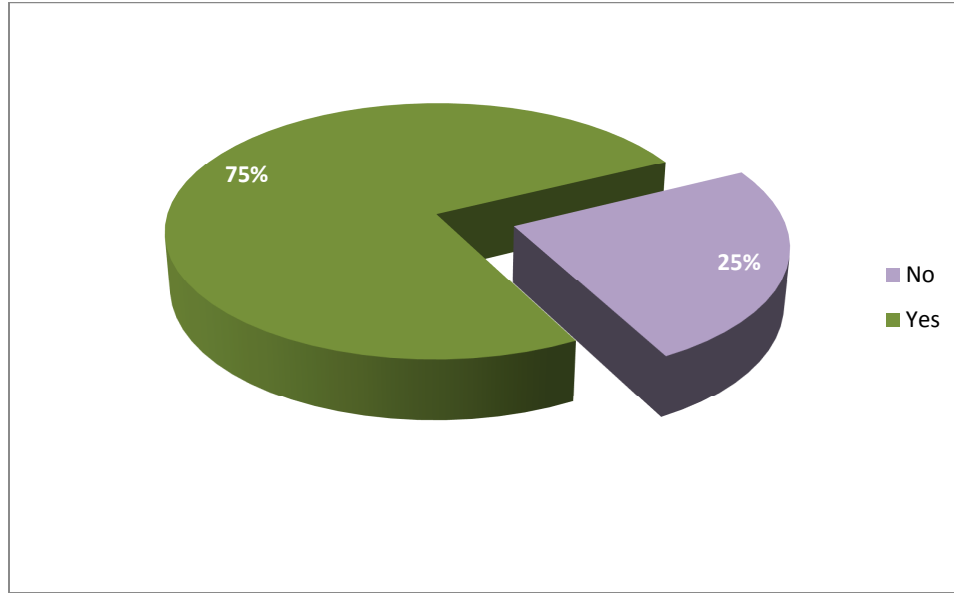
Table 18 - time to learn / get training in tax liabilities (according to the position in the company) 17

Time needed per month to get trained/informed regarding tax obligations.	What is your function?					Total
	External tax advisor	Owner	Employee	Manager	Tax responsible	
Less than 30 min	31,75%	34,42%	28,30%	36,11%	24,11%	31,59%
Half an hour to 1 hour	11,64%	17,39%	11,32%	2,78%	14,29%	13,52%
1 hour	8,47%	9,06%	11,32%	8,33%	16,96%	10,02%
1 to 2 hours	17,46%	16,67%	13,21%	13,89%	19,64%	17,02%
2 to 3 hours	6,35%	4,35%	5,66%	5,56%	6,25%	5,59%
More than 3 hours	24,34%	18,12%	30,19%	33,33%	18,75%	22,26%
Total	100%	100%	100%	100%	100%	100%

Base	378	276	53	36	112	855
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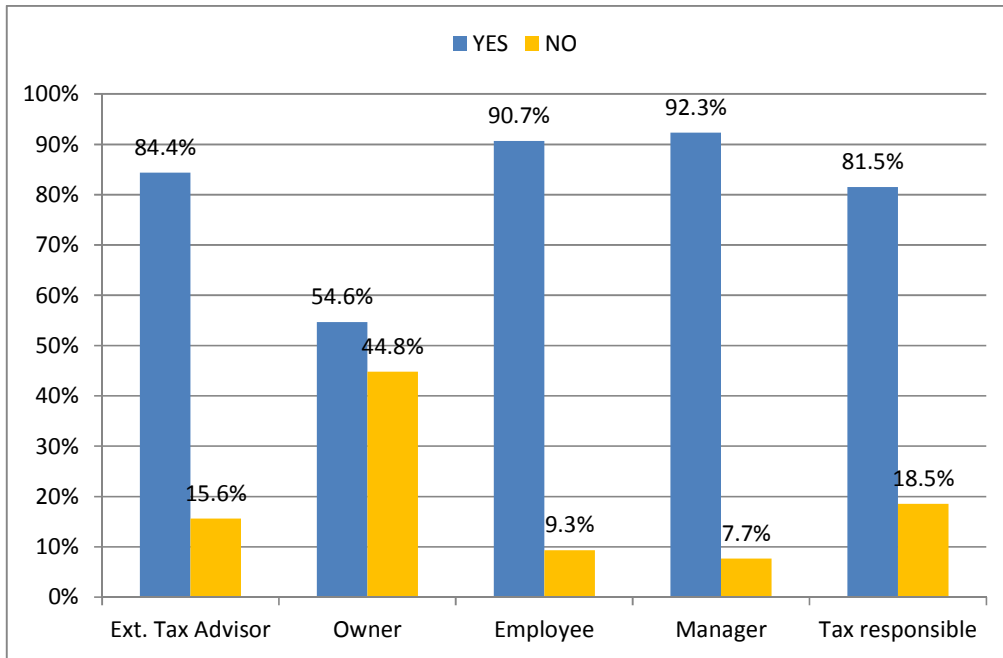
When asked the average time it takes to get training per month, 51% of those who claim to be owner admitted to use less than an hour. At the same time a percentage that varies from 18% (tax manager) and 33% (Manager) say it takes more than 3 hours for this work.

Chart 13 - use of Internet to comply with tax obligations 13
(Base: 1152)



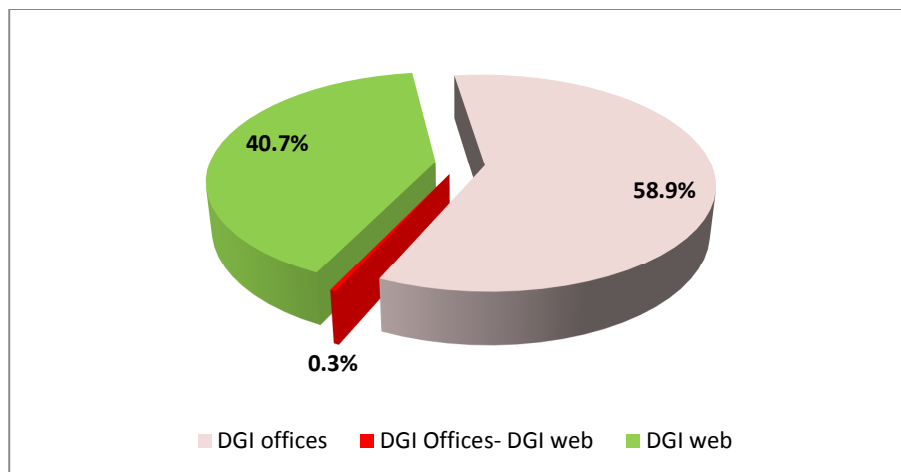
75% of taxpayers use internet to comply with their tax obligations. When we see the information by position in the company, we can see that both the external tax advisor and the Manager and the responsible tax show significant familiarity with virtual platforms compared to the rest of the people, especially the owner, with percentages of use ranging from 81.5 (head tax) % to 92.3% (Manager). Also, it can be seen that the owners are less likely to use internet to meet their tax obligations.

Graph 14 - Use of Internet to comply with tax obligations vs. position.14

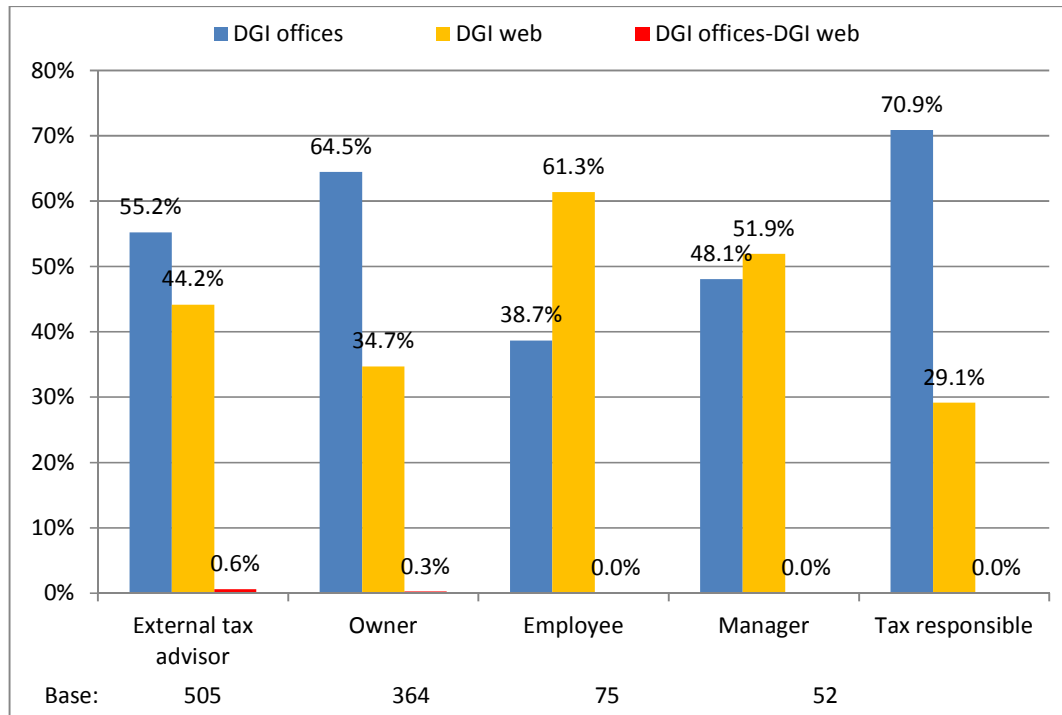


In relation to the channel used to update the registry, 59% of taxpayers are doing it at the offices of the DGI and 41% through the website of the DGI. There is significant space for reduction of costs of compliance by guiding the update processes using internet. Definitely, this can be considered a critical process and the possibility of doing it online could be one reason of loss of control for the DGI.

Graph 15 - Channel used for registering or updating the tax registry¹⁵



When we analyze the information by position in the company, again we can see that accountants have a tendency to use more online tools compared to other in the company. 89% of accountants update the information while online while 50% of the other positions use online tools in this sense.

Chart 16 - Channel used for the tax registration/upgrade vs. position occupied 16

Tax return and payment

The process of return and payment includes the filling of forms, the submission (face-to-face, online, etc.) and finally the process of payment (collections network, online, etc.). This process is very important and therefore the study includes several questions that seek to have a comprehensive appreciation of its influence on the tax compliance costs.

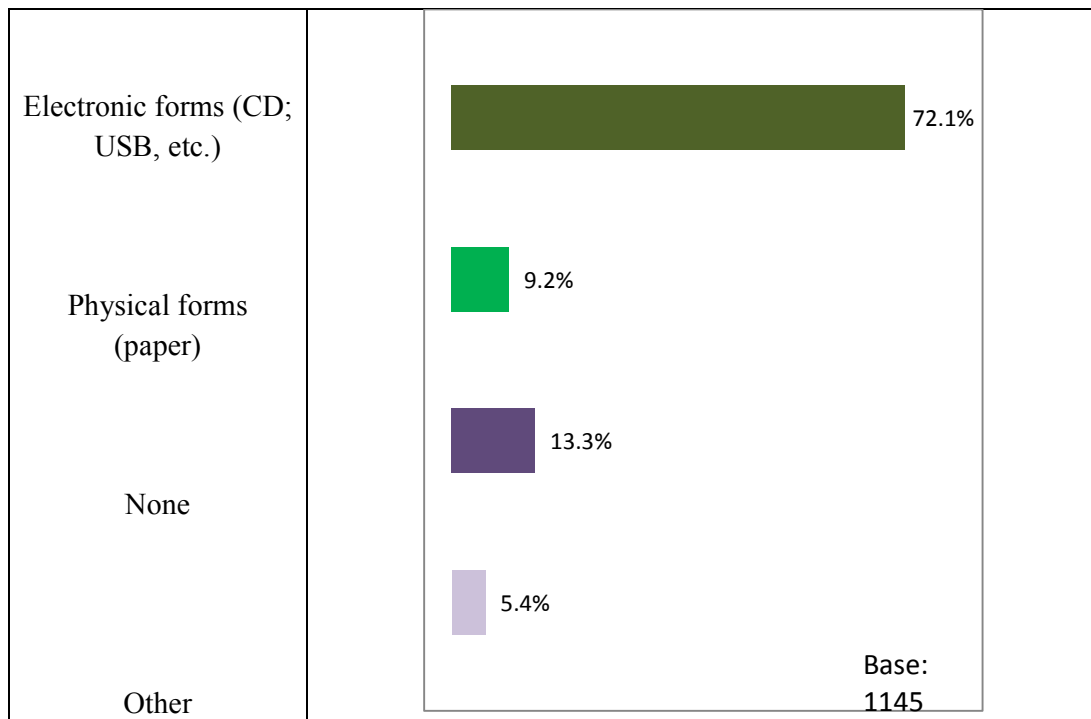
It must be noted that compliance with the minimum VAT does not require using a return form, since it is basically a payment coupon that is used, as opposed to the general regime which requires a return.

**Table 19 - Time needed for the submission of returns forms to the DGI vs.18
Position occupied**

Hours per month needed for submitting forms to the DGI	What is your position?					Total
	External tax advisor	Owner	Employee	Manager	Tax responsible	
Half an hour or less	20,31%	29,73%	8,47%	22,86%	8,74%	20,67%
30 min to 1 hour	9,00%	6,31%	15,25%	5,71%	7,77%	8,42%
1 hour	43,96%	44,59%	37,29%	40,00%	49,51%	44,18%
From 1 to 2 hours	16,97%	11,26%	18,64%	8,57%	16,50%	15,10%
From 2 to 3 hours	2,57%	1,35%	5,08%	2,86%	5,83%	2,85%
From 3 to 6 hours	3,34%	4,05%	6,78%	11,43%	4,85%	4,33%
More than 6 hours	3,86%	2,70%	8,47%	8,57%	6,80%	4,46%
Total	100%	100%	100%	100%	100%	100%

However, when we look at the information for the type of position that the respondent plays in the company, accountants (external advisor and tax responsible) differ from respondents from other jobs because the majority (more than 50%) the presentation of the return forms takes less than 1 hour. The common denominator of the accountants is that they would be more effective in using the available tools.

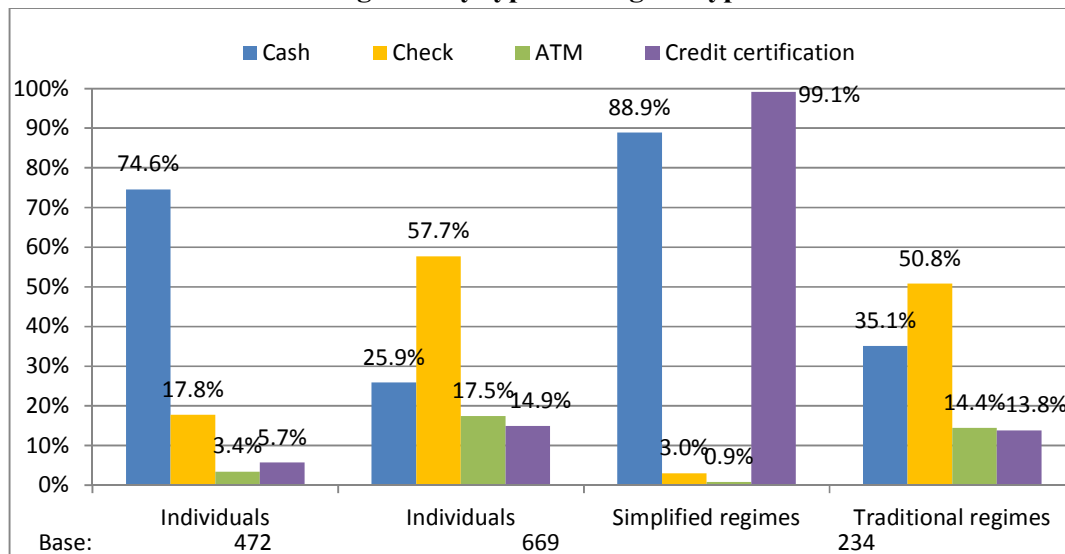
Graph 17 - Methods employed for filing the tax return 17



It can be noted that 72% of taxpayers use electronic forms for the return submission, the choice of the physical form having little importance (9%). A percentage of companies reports not using any type of form and they are related to the minimum VAT in which no return must be officially submitted.

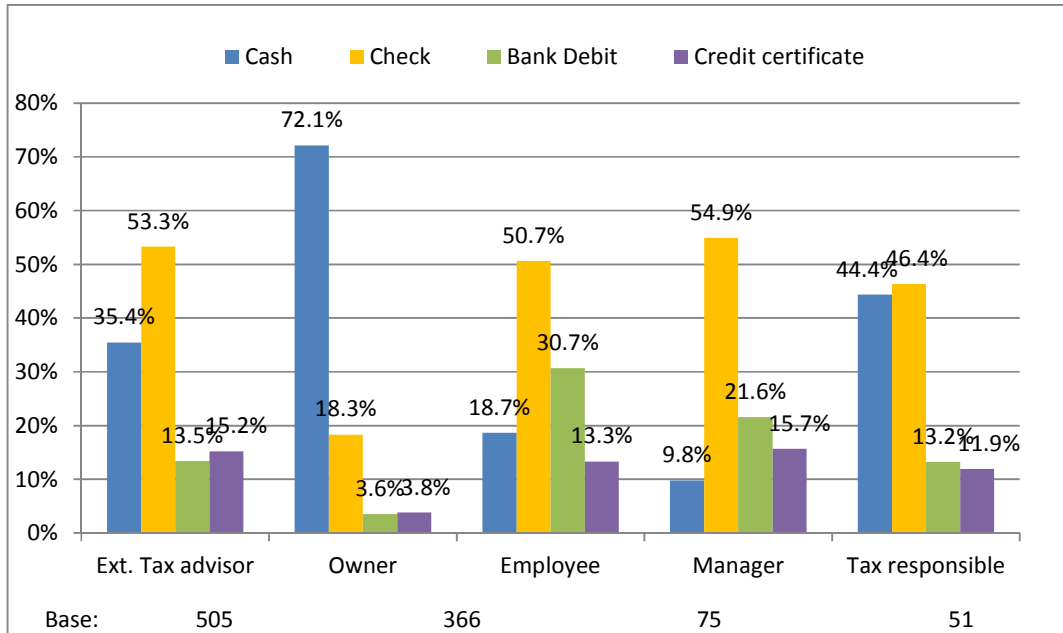
In relation to payment mechanisms, there is a high use of cash (89%) in the payment of tax obligations for companies under the simplified regime. Unlike companies in the CEDE and NO CEDE, which use cash by 35%, using more checks (51%) and the debit account (14%).

**Chart 18 - medium used for the payment of tax obligations vs. 18
Legal entity type and regime type.**

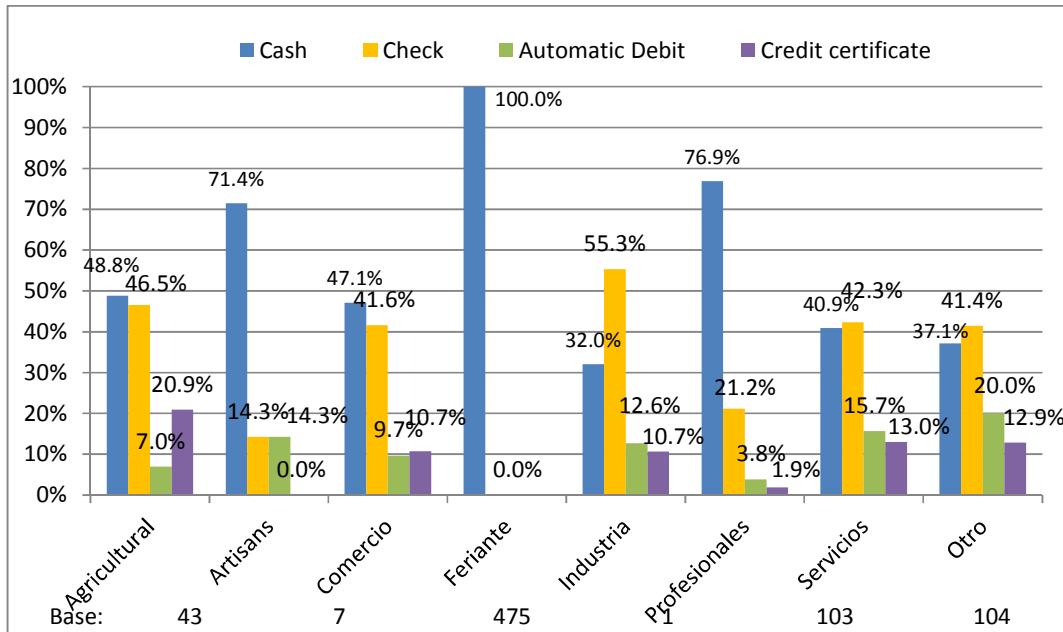


In relation to the use of payment types and the position in the company, it can be seen that it is the owner that uses cash for the tax payment (72% of the time), while the external advisor and tax manager rather use the check as payment method.

Chart 19 – Systems used for the payment of tax obligations vs. position of the surveyed 19



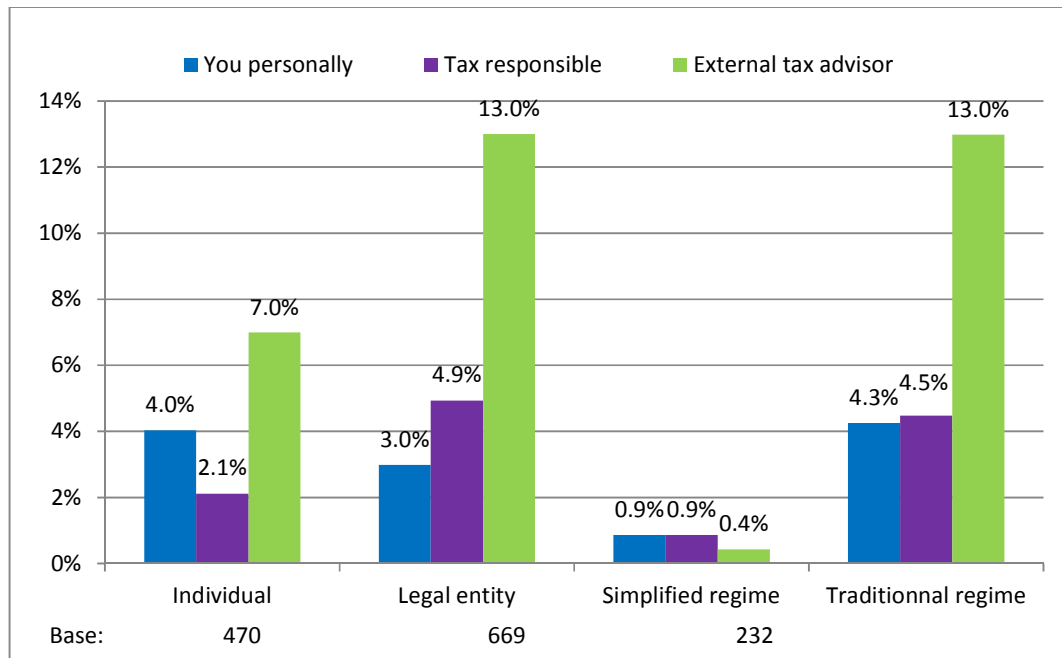
Graph 20 – Systems used for the payment of tax obligations vs. type of business 20



Among those who use a bank account to pay their obligations, 13% of those in CEDE and NO CEDE report that such payment is made by the external tax advisor.

A similar situation occurs when the behavior is observed according to the company registration: For legal entities, 13% of them are done by their external tax advisor. This important support in the external tax advisor is a special characteristic of the Uruguay case.

Graph 21 - Responsible for the payment of taxes when they are paid through a bank account vs. legal entity type and type of regime 21



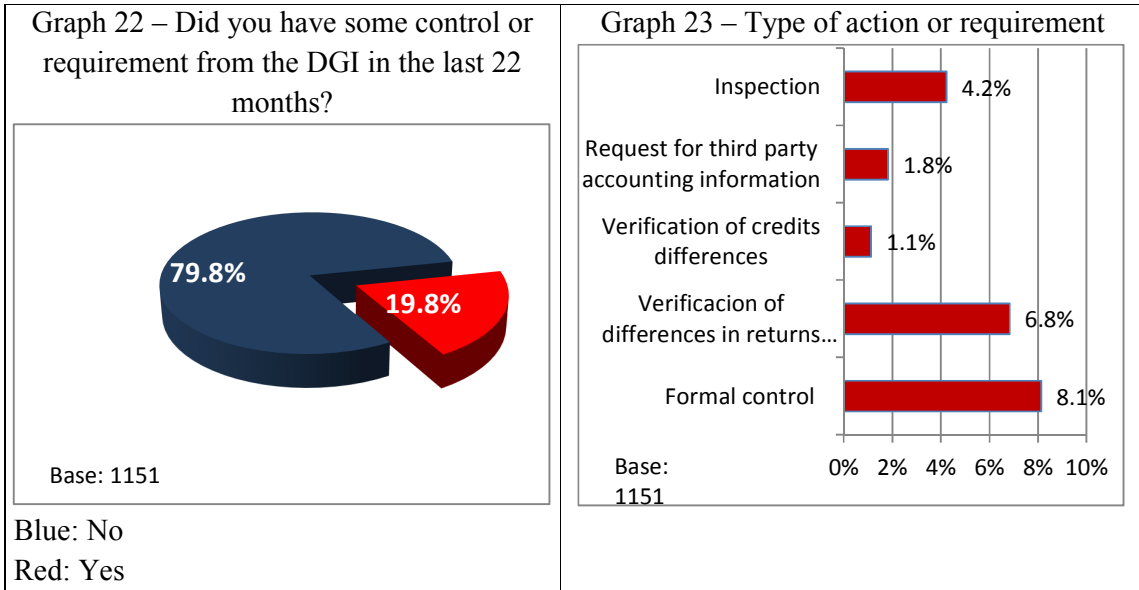
Tax control

The Tax control aimed at the MSMEs follow the requirements about business information, checking for discrepancies, auditing of accounting records, among others.

In regards to having received some requirement or DGI control action, almost 20% of respondents said having been contacted by the DGI for those purposes; which shows the extensive coverage of the DGI in relation to the risk generation. And those indicating that the Control activities and verification of differences in returns and/or payments were the most frequent.

Graph 22 - Did you have any control or action requested by the DGI in the past 12 months?22

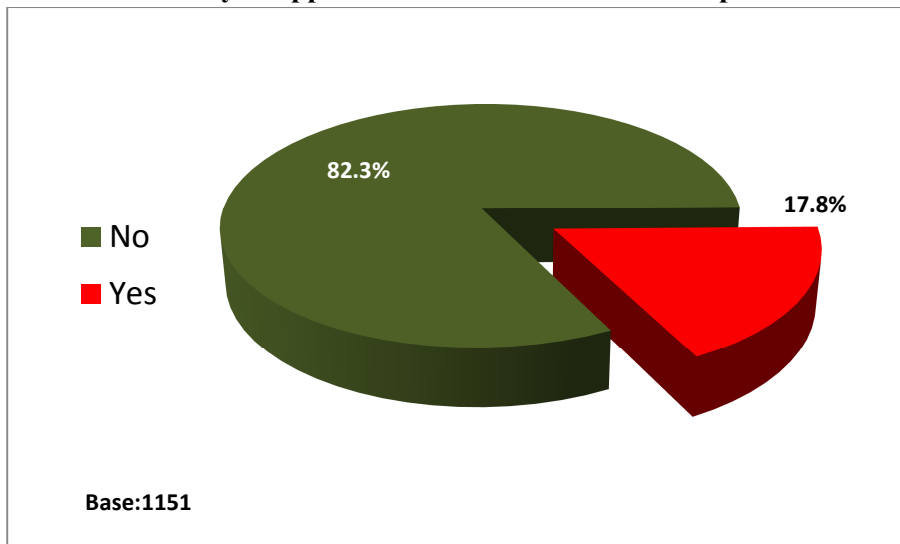
Graph 23 - type of action or requirement23



Refunds and claims

Only 18% of respondents said having made a request for refund in the study period. The process of refund, by its nature of cash return to the taxpayer, is very attractive to external agents.

Chart 24 - Have you applied for some tax refund in the past 12 months?24

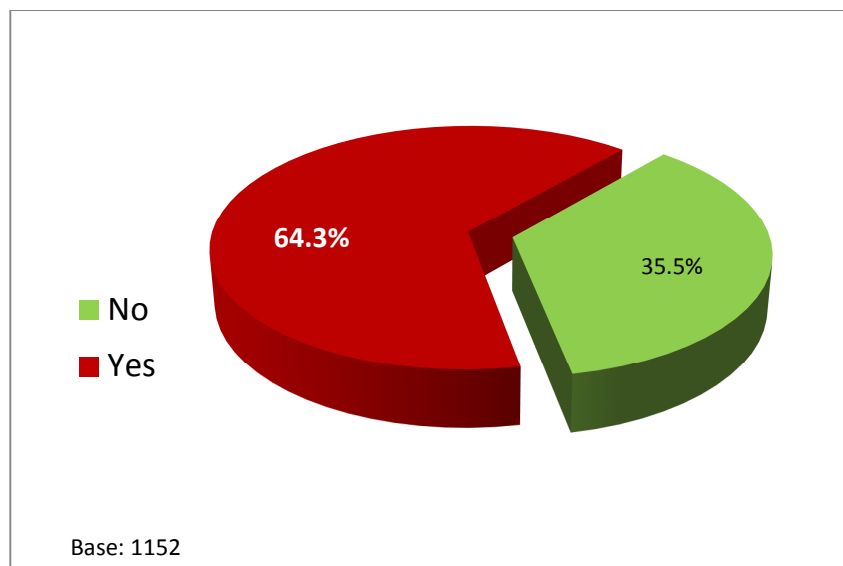


Costs and external costs

Chart 25 shows that 64.3 percent of the respondents resorted to the use of an external consultant in the past 12 months. Procedures which needed it most were usual formalities to the DGI, registration, accounting books maintenance and for the submission and/or payment of taxes.

Chart 25 - Did you pay for external tax consultant services in the past 12 months?

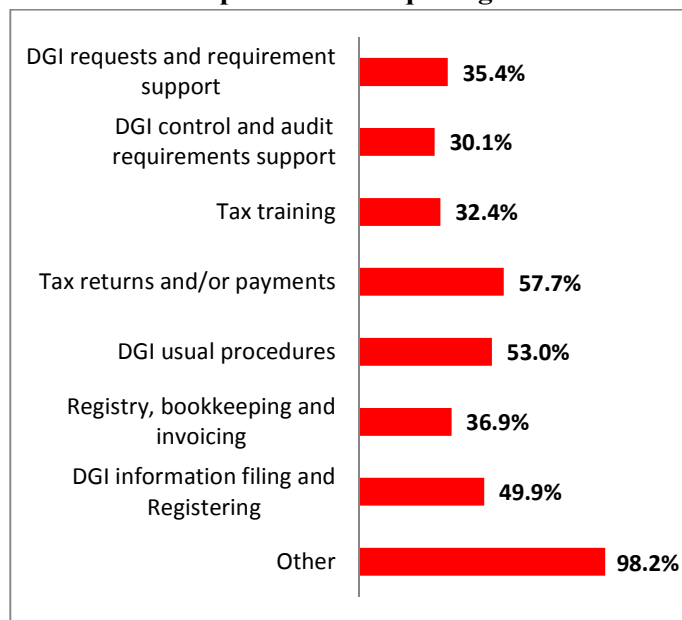
25



Costs and external costs are an important component within the tax compliance costs in the companies of Uruguay. The activity by which taxpayers required the support of some most common external advisor were registry and accounting books, the usual procedures in tax administration, updating and registration of the information and submission of returns, with 20%, 19%, 19% and 18%, respectively.

These results indicate the use of external consultants in bookkeeping support is fairly common among MSMEs. This activity, despite having a relatively low difficulty level is the one for which companies prefer to use a third party.

We could infer that the opportunity cost of the taxpayer to carry out this activity is high and therefore it is transferred to a third party, who use a process established in procedures, using tools as well as software, and performs the task for a reasonable fee.

Chart 26 - procedures requiring a tax advisor

26

In this case, the review of the responses has not provided a sufficient amount of data to allow achieving a precise cost for external consultants' fees. However, given the large proportion of companies that opt for such alternative, two alternative sources of approximation of the cost for external advice have been used.

From the Review of both sources of information, for the present measurement (annex 6) we take the values provided by the CCEAU shown in table 20.

**Table 20 - minimum fee (monthly and annual) for external consulting 19
(By company type)**

Company type	Minimum fee	Without/with accounting	Fee (US \$ / month)	Fee (\$ / year)
Microbusiness	1/2 hour / month		32.5	390
Small	1 hour / month	Without sufficient accounting	65.00	780.00
	2 hour / month	With sufficient accounting	130	1,560.00
Medium	2 hour / month	No sufficient accounting	130.00	1,560.00
	3 hours/month	With sufficient accounting	195.00	2,340.00

In other words, the costs of external advisors are especially high for the micro and small companies.

2.4 TAX ADMINISTRATION COSTS - METHODOLOGICAL ASPECTS

2.4.1 DGI Organizational structure

The new organizational structure of the DGI was approved in the month of September 2011 and shown in annex 7. According to the organizational structure, the updated staff number for each Division appears as follows.

Table 21 – number of officials (by Division)20

DIVISION	Number of officials
ADMINISTRATION	164
TAXPAYER ASSISTANCE	189
GENERAL MANAGEMENT	75
CONTROL	256
LARGE TAXPAYERS	63
INFORMATION TECHNOLOGY	99
INLAND DEPARTMENTS	343
COLLECTION AND EXTENSIVE CONTROLS	155
TECHNICAL	69
TOTAL	1,413

Source: Economic Assessment

Creation: Author

The current organizational structure of the DGI reflects a typical organization of a tax administration focused on the taxpayer cycle processes. The highest number of officials is in the areas of control and interior, i.e. focused on a greater control and in the departments of the interior of the country.

A large number of officials also are in the areas of customer assistance as well as administration and, finally collection and extensive controls.

2.4.2 Steps for the measurement of the tax administration costs

According to the process map drafted by the DGI for the year 2012, the cost of tax administration would be structured in the following way:¹⁶

Diagram 3 - Cost of tax administration³

Substantive Process/Sub-process	Cost	Costs of support processes				Total Cost
		Process support 1	Process support 2	...	Process support n	
Process/sub process 1	$C_{PS\ 1}$	$C_{PA\ 1,1}$	$C_{PA\ 2,1}$...	$C_{PA\ n,1}$	$CPS_1 + \sum_i CPA_{i,1}$
Process/Sub-process 2	$C_{PS\ 2}$	$C_{PA\ 1,2}$	$C_{PA\ 2,2}$...	$C_{PA\ n,2}$	$CPS_2 + \sum_i CPA_{i,2}$
...
Process/Sub process m	$C_{PS\ m}$	$C_{PA\ 1,m}$	$C_{PA\ 2,m}$...	$C_{PA\ n,m}$	$CPS_m + \sum_i CPA_{i,m}$

Where,

CPS_j , corresponds to the cost of the substantive process/Sub-process j.

$CPA_{i,j}$, corresponds to the cost of the support process i assigned to the substantive process/sub process j.

It should be noted that some substantive processes/sub processes are carried out or are the responsibility of more than one organizational unit; this discrimination was carried out with the support of the Division of administration and the APOC.

The following steps were followed to carry out the measurement according to the methodology proposed and adapted to the DGI for 2012:¹⁷

¹⁶The Planning, organization and Control Office (APOC) told us that although it has not been made official in any document or any institutional broadcast, they used and defined as follows the mechanisms for their knowledge in the entire institution. Annex 4 describes in detail each of the substantive processes and support according to the existing map of processes

¹⁷The details of the measurement required for working meetings with:

- Advice on planning, organization and Control (APOC)
- Administration Division
- Interior Division
- Large taxpayers Division collection Department

Step 1: Identification of substantive processes and sub processes of the DGI

In the case of the DGI, in 2012 the map of processes and support processes of the DGI was completed. However, considering that costs measurement has as a purpose an analysis of existing processes/sub processes in the institution and make decisions in relation to such analysis, it was necessary to identify a second level, in regard to support processes (defined very broadly).

The definition of this second level of detail of the substantive processes was carried out based on meetings with the APOC as well as each of the “process actors”, because the aim was to have a determination or detail of the sub processes that make sense for the “process owner”.

Substantial processes identified as important (in a second level) are shown in the following table.

Table 22 - substantial sub-processes identified as relevant 21

SUBSTANTIAL PROCESS	SUBPROCESSES
A. INFORMATION AND ASSISTANCE	A.1. FACE TO FACE
	A2 CALL CENTER
	A.3 OTHER
B. MANAGEMENT OF TAXPAYERS	B.1 Registration
	B.2 Return receipts
	B.3 Payment receipts
	B4. REFUND Certificates
	B.5 Granting of good standing certificates
	B.6 Foreign Trade Management
C. COLLECTION MANAGEMENT	C.1 Receipt, registry and deposit of revenues (including assets management)
	C.2 Control and collection accountability
	C.3 management of agreements
	C4. Judicial collection management
D. EXTENSIVE CONTROLS	D1. IRPF
	D.2. CEDE
	D.3. NO CEDE
E. INTENSIVE CONTROLS	E.1. Large Taxpayers
	E.2. CEDE + NO CEDE
F. LEGAL MANAGEMENT	F.1. Large Taxpayers
	F.2. Others
G. TAX LEGISLATION	NO SUBPROCESS

It is clear that a different breakdown at the level of substantial sub-process can be defined according to the needs of each “process owner” and it is part of a future APOC project to be scheduled.

Step 2: *Determination of the amount and value of agents who are in charge of each substantive process and Sub-process (determination of installed capacity).*

It requires associating to each identified process/sub process, various organizational units (OUs) involved in their execution/enforcement.

There are processes/sub processes clearly identified/associated with a specific OU. However, there are also those who are executed by several OUs or by part of an OU. In these latter cases, in order to make the partnership more specific, a link to most related OU was necessary and thus meet their criteria in relation to the most appropriate division/Association.

Among the OUs requiring to be distributed among multiple processes/sub processes are:

- ***Regional Division***, with staff working in the regional administrations of the countryside and its staff is characterized by being multifunctional (an official can perform tasks of assisting the taxpayer, management of taxpayers, extensive controls, etc.)
- ***Taxpayer Assistance Division*** has staff belonging to the Department in charge of the registry, receipt of statements, granting of certificates of compliance and Foreign Trade Management.
- ***Technical-fiscal Division*** includes the Litigation Department which is in charge of the process/sub process of the legal management for other taxpayers (not large taxpayers) and the normative section which is responsible for the process of tax legislation.

Calculating the number of officials who are responsible for each process/sub process will serve to assign the costs of support processes to each of the processes/sub processes, through an apportionment. However, considering that each human resource cannot be considered homogeneous given their varying degrees of specialization and competence, it was assumed that such assignment occurs in relation to the cost of these human resources, and not simply to the number of officials.

For this reason, the payroll cost (year 2012) was quantified referring to officials previously identified in each process/sub process of the DGI.

Step 3 *Identification of the DGI support processes.*

The support processes were also identified from mapping processes conducted by the DGI and headed by APOC.

Step 4 *Determination of the OUs in charge of the support processes.*

Like step 2, the Association has required in some cases to make several assumptions of association, which are shown in the following graph.

Step 5: *Cost of processes/sub processes as well as support processes.*

The cost associated to each process/sub process as well as support processes is primarily the result of the cost of the human resources that are assigned (and work) in each OU in charge and the cost of supplies and other services that are used by these human resources.

The formula would be as follows:

$$\begin{array}{l} \text{Cost of} \\ \text{process/Sub} \\ \text{process and} \\ \text{support process } i \\ \text{(CPS } i) \end{array} = \begin{array}{l} \text{Cost of} \\ \text{human} \\ \text{resources } i \end{array} + \begin{array}{l} \text{Cost of supplies and} \\ \text{services } i \end{array}$$

A priori, we can say that a significant proportion of the costs of each process/sub process will involve the cost of human resources.

The *cost of human resource* component resulted from identifying - in detail - the total cost perceived by each staff member according to their wages and other amounts collected during the year 2012; such as bonuses, holidays, etc. The amounts considered in addition to the remuneration are group bonuses while paid vacation and bonuses are not included.

The component *cost of supplies and services*, resulted from identifying - in detail - the total cost of these concepts for each OU involved in each process/sub-process and support process.

The costing required certain criteria and assumptions that were validated with the responsible offices (APOC, Division of Administration) and those UO that, by the characteristics of their work, required a more ad-hoc determination of their expenditures.

Step 6: *Allocation of the support process cost to each process/sub process*

This assignment involved the pro rata sharing of the costs of the support processes according to criteria validated by the specific OUs.

Step 7: *Obtaining the cost of the DGI processes/sub processes.*

2.4.3. **Tax administration costs measurement**

Following the methodological considerations described in section 2.4., the measurement of tax administration costs in the DGI for 2012 show the partial results of the table 24; costs of the substantive processes payroll.

Table 24 - Substantive processes of the DGI - 2012 remuneration costs (payroll)23

Substantive process	Substantive sub processes	Number of officials	Wages Cost (\$)	%
A. INFORMATION AND ASSISTANCE	A.1. FACE TO FACE	182	119.699.324	11,0
	A.2. CALL CENTER	33	1.901.640	0,2
	A.3. OTROS	58	8,476,143	0.8
SUBTOTAL		273	130.077.107	11,9
B. MANAGEMENT OF TAXPAYERS	B.1. Registry	193	157.962.982	14,5
	B.2. Return receipts	32	31.840.546	2,9
	B.3 Payments receipt	2	1.368.248	0.1
	B.4 Refund Certificates	12	9,307,235	0.9
	B.5. Good standing certification	8	9,307,235	0.9
	B.6. Foreign Trade Management	11	15,178,955	1.4
SUBTOTAL		258	225,140,873	20.6
C. COLLECTION MANAGEMENT	C.1. Reception, registration and deposit of revenue (includes assets management)	14	13,921,531	1.3
	C.2 Control and collection accountability	8	8,373,050	0.8
	C.3 Agreements Management	13	9,462,490	0.9
	C.4 Judicial management of collection	62	88,855,247	8.1
SUBTOTAL		97	120,612,318	16.7
D. EXTENSIVE CONTROLS	D.1 PIT	5	4,377,922	0.4
	D.2. CEDE	95	90,686,945	8.3
	D.3. NO CEDE	95	87,324,971	8.0

Substantive process	Substantive sub processes	Number of officials	Wages Cost (\$)	%
SUBTOTAL		195	182,389,838	16.7
E. INTENSIVE CONTROLS	E.1 Large Taxpayers	41	63,109,915	5.8
	E.2. CEDE + NO CEDE	202	274,699,202	25.2
SUBTOTAL		243	337,809,117	31.0
F. LEGAL MANAGEMENT	F.1 Large Taxpayers	3	5,779,853	0.5
	F.2. Others	40	65,176,378	6.0
SUBTOTAL		43	70,956,231	6.5
G. TAX LEGISLATION	WITHOUT SUBPROCESS	15	23,957,516	2.2
TOTAL		1124	1,090,942,999	100

In addition, according to the correspondence between support processes and organizational units, a cost of these processes was determined and is shown in table 25.

Table 25 - costs for the support processes - DGI 201224

PROCESS/SUBPROCESSES	Org. Unit 1	Org. Unit 2	Org. Unit 3	Org. Unit 4	Org. Unit 5	Org. Unit 6	Org. Unit 7	Org. Unit 8	Org. Unit 9	SUM
Planning and management process	19.809.837	11.727.829	3.014.624	5.785.941	11.338.670	4.065.472	9.389.738			65.132.115,33
System organization and procedures	19.809.837	11.727.829	3.014.624	5.785.941	11.338.670	4.065.472	9.389.738			65.132.115,33
IT Management	127.027.630									127.027.630,50
Information Management	19.644.842	1.519.595	6.881.473	21.878.848	20.860.623	10.789.293	6.712.687			88.287.363,94
Human Resources	21.928.863	7.644.666	2.916.782	7.049.754						39.540.067,13
Serv., resources and Fin. Management	18.150.970	7.786.299	5.139.526	1.519.595	6.881.473	21.878.848	20.860.623	10.789.293	27.659.986	120.666.616,49
Communication and Institutional. Image	6.712.687									6.712.687,46
									TOTAL	512.498.596,17

Here we can see that support processes that account for the higher costs are the areas of information technologies, service management, material resources and financial and information management.

Table 26 – cost of tax administration - DGI 201225
(By substantive process)

Substantive process	\$ pesos (mill.)	US \$ (mill.)	%
A. INFORMATION AND ASSISTANCE	219.95	11.00	11.5
B. TAXPAYERS MANAGEMENT	372.80	18,60	19,5
C. COLLECTION MANAGEMENT	205,57	10.30	10.8
D. EXTENSIVE CONTROLS	309.00	15.40	16.2
E. INTENSIVE CONTROLS	619.25	31.00	32.5
F. LEGAL MANAGEMENT	143.00	7.10	7.5
G. TAX LEGISLATION	38.00	1.90	2,0
TOTAL	1,906.00	95.30	100.00

The measurement displayed in table 26 requires more detail in table 27, showing the cost of administration, disaggregated by substantive processes and sub-processes

Table 27 - Cost of Tax Administration - DGI Uruguay - 2012 26
(By Substantive Process/Sub-process)

Substantive processes	Substantive Sub-processes	Total Cost (mill. \$)	Total Cost (mil. US \$)	%
A. INFORMATION AND ASSISTANCE	A.1. ON SITE	195.30	9,780	10.0
	A.2. CALL CENTER	3.01	0.15	0.2
	A.3. OTHER	13.43	0.67	0.7
SUBTOTAL		218.95	10.95	11.1
TAXPAYERS MANAGEMENT	B.1. Registry	258.18	12.91	13.5
	B.2. Receipt of returns	50.47	2.52	2.6
	B.3. Payments receipts	6.75	0.34	0.4
	B.4 Refund certificates	15.03	0.75	0.8
	B.5. Delivering certificates of good standing	14.75	0.74	0.8
	B.6 Foreign Trade Management	24.06	1.20	1.3
SUBTOTAL		372.83	18.64	19.4

Substantive processes	Substantive Sub-processes	Total Cost (mill. \$)	Total Cost (mil. US \$)	%
C. COLLECTION MANAGEMENT	C.1 Reception, registration and deposit of revenue (includes assets management)	25.34	1.27	1.3
	C.2 Collection Control and accountability	13.27	0.66	0.7
	C.3. Agreements Management	18.27	0.91	1.0
	C.4 Judicial management of collection	144.11	7.21	7.6
SUBTOTAL		205.58	10.28	10.5
D. EXTENSIVE CONTROLS	D.1. PERSONAL INCOME TAX	6.94	0.35	0.4
	D.2. CEDE	151.48	7.57	7.9
	D.3. NO CEDE	145.92	7.30	7.7
SUBTOTAL		308.92	15.45	16.0
E. INTENSIVE CONTROLS	E.1 Large Taxpayers	104.86	5.24	5.5
	E.2 CEDE+NO CEDE	514.38	25.72	27.0
SUBTOTAL		619.25	30.96	32.5
F LEGAL MANAGEMENT	F.1. Large Taxpayers	14.00	0.70	0.7
	F.2. Other	128.96	6.45	6.8
SUBTOTAL		142.96	7.15	7.5
G. TAX LEGICSLATION	WITHOUT SUB PROCESS	37.97	1.90	2.0
TOTAL		1,906.45	95.32	100.0

It can be noted that the higher cost is associated with the process of intensive controls (32.5%) and, specifically, to the sub-process referred to controls to CEDE+NO CEDE taxpayers (27%). Other processes that involve significant costs are also taxpayers' management (19.4%) of which the most important is taxpayer registry (13.5%).

Also, other processes of higher cost are those of information and assistance (11.1%), specifically the referred on site assistance (10%), as well as extensive controls processes (CEDE and NO CEDE), and Judicial collection management (7.6%).

Showing tax administration costs, requires a preliminary step of identifying a criterion for allocation of the costs of each process/sub process to each tax. To do this, the Local team proposed criteria table 28 regarding the income tax-IASS. The cost remaining after assigning the criterion of that table has been assigned to the other taxes according to their participation in collection.

Table 28 - Criteria for the administration 27costs allocation by tax

PROCESS/SUBPROCESS	% IT/IASS
A. Information and Assistance	
A1. Onsite	60%
A2. Call Center	100%
B. Taxpayer Management	
B4. Refund certificates	0%
B6. International Trade Management	0%
C. Collection Management	
C1. Collection Reception, registry and deposit	0%
D. Extensive controls	
D1. CEDE	0%
D2. NO CEDE	0%
E. Intensive Controls	
E1. Large Taxpayers	0%
E2. CEDE+ NO CEDE	0%
F. Legal Management	
F1. Large Taxpayers	0%

Table 29 shows the administrative costs according to each tax, considering that it the VAT which considering that the VAT registers the highest cost (51%), followed by the IRAE (12%) and income tax-IASs (11%).

Table 29 - Tax administration costs 28
(By process/sub process and tax)
(Millions of US \$)

Processes/Subprocesses	IT – IASS	VAT	IRAE	Others	Total
C. Information and Assistance	6.10	2.72	0.63	1.15	10.95
A1. Face to face	5.86	2.36	0.55	1.00	9.77
A2. Call Center	0.15	-	-	-	0.15
A3. Others	0.09	0.35	0.08	0.15	0.67
B. Taxpayers Management	2.21	9.83	2.27	4.15	18.64
B1. Registration	1.73	6.76	1.56	2.85	12.91
B2. Receipt of returns	0.34	1.32	0.31	0.56	2.52
B3. Payment receipts	0.05	0.18	0.04	0.07	0.34
B4. Refund certificates	-	0.45	0.11	0.19	0.75
B5. Certificates of good standing	0.10	0.39	0.09	0.16	0.74
B6. International Trade Management	-	0.73	0.17	0.31	1.20
G. Collection Management	1.18	5.37	1.24	2.26	10.28
C1. Reception, registry and deposit of collection.	-	0.77	0.18	0.32	1.27
C2. Collection Control	0.09	0.35	0.08	0.15	0.66
C3. Agreements Management	0.12	0.48	0.11	0.20	0.91
C4. Judicial collection management	0.97	3.78	0.87	1.59	7.21
H. Extensive controls	-	9.21	2.13	3.88	15.45
D1. Income Tax	-	0.21	0.05	0.09	0.35
D2. CEDE	-	4.58	1.06	1.93	7.57
D3. NO CEDE	-	4.41	1.02	1.86	7.30
I. Intensive controls	-	18.73	4.33	7.90	30.96
E1. Large Taxpayers	-	3.17	0.73	1.34	5.24
E2. CEDE + NO CEDE	-	15.56	3.59	6.56	25.72
J. Legal Management	0.86	3.80	0.88	1.60	7.15
F1. Large Taxpayers	-	0.42	0.10	0.18	0.70
F2. Others.	0.86	3.38	0.78	1.43	6.45
K. Tax Normative	0.25	0.99	0.23	0.42	1.90
Total per tax	10.61	50.66	11.70	21.36	95.32

Finally, in order to make comparable the measurement of the DGI of Uruguay tax administration costs with measurements made in other countries, the cost of administration must be compared to a reference value, such as the GDP.

Considering that the 2012 GDP of Uruguay (\$ 51'013, 878 million dollars) (using the exchange rate that the report had been using, TC = 20 pesos, the GDP in \$ amounts to 50.693,9 million), the DGI tax administration costs are found at 0.188% (table 30, summary in table 26), with the Control that concentrate 0.128% of GDP. The other processes (services, collection and other) have approximately an average share of 0.019% GDP each.

Table 30 - tax administration costs²⁹
(% GDP)

Services	0.022%
Control	0.128%
Enforced Collection	0.020
Other	0.018%
TOTAL	0.188%

CHAPTER 3

FINAL CONSIDERATIONS

3.1. Conclusions

- The implementation of the methodology for measuring the tax transaction tax costs is the starting point for providing the DGT with a tool to evaluate the costs incurred by the taxpayer and the tax administration.
- The use of external advisors is a very common practice in companies, which have to pay attention, not aiming to limit the practice but external advisers consider an intermediate channel with taxpayers and make the relationship more effective. If taxpayers outsource activities this contributes can contribute to a greater efficiency of the system if on the other hand this activity generates overcasts, it is necessary to verify the processes and simplify procedures.
- The simplified regime is an important tool to reduce the cost of compliance of companies however the low number of companies that are part of the regime is striking. The DGT is continuously making improvements and promote the self-payment of taxes.
- Paying at a Bank window implies a high cost in time for the tax payments. Develop a program in conjunction with the entities of the banking system could lead to a reduction in the number of hours for the tax activity.
- Regarding administrative costs, the proposed methodology involved transforming/convert/reformulate components of the DGI executed budget for the fiscal year 2012 in terms of institutional processes.
- The institutional budget of the DGI is of a multi-year nature, established for the five-year period 2010-2014 and each year an annual budget is submitted.¹⁸¹⁹

¹⁸ Which is defined for the Government period.

¹⁹ Decree No. 166/005 of 30 May 2005 institutionalizes this strategic planning as a control management tool determining the need to set targets to achieve over a multiannual period that shall not exceed the budget period of Government.

- Institutional processes were obtained from the institutional work of the DGI called substantive processes and support processes Mapping - 2012. This mapping was done by the planning, organization and Control (APOC) council and validated with the Organization in a work that where a first version of process mapping was available.²⁰
- The methodological proposal of the project came next. (February 2013). However, it had to be adjusted to the reality of the Administration and budget of the DGI for the results to be valid and useful for the organization.
- The fundamental adequacy was that the allocation criteria or *cost-driver* was not the number of officials who perform each substantive process but rather the cost of such officials (the payroll cost of such officials), considering the concepts of revenue of all of them during the year of analysis. This adaptation was taken into account because it was not realistic to consider every official as “equal” in qualitative terms for the distribution of costs.
- An additional adaptation considered to divide each substantive process established in the DGI map of processes into additional sub-processes. A first identification of the referred sub-processes was obtained from the revision of the organic and functional structure of the DGI and this was validated with APOC, and with each “process owner” since the division of sub-processes should be useful to the institution.
- Taking into account that the methodology considered reforming the institutional budget in terms of processes, some assumptions in the allocation of officials, expenses and investments were made. In this process, some difficulties were faced such as having the total revenue earned by each employee of the DGI (step 3) during the year 2012. By not having a detailed record of such income cumulatively, they had to be “rebuild”.
- The dynamics for the adaptation, i.e., identifying processes with APOC²¹ and validating the structure of the budget with the Administration Division²² and other organizational units (to refine the identification processes and those responsible for conducting these processes), reflected a logical sequence allowing more reliability and usefulness to the measurement results

²⁰This first version of the map of processes of the DGI had as the source of an integrated model of information design, however, APOC indicates that already before that effort the DGI considered important to establish the map. To date it has not spread internally but APOC has plans to do so.

²¹Responsible for budget management.

²²Head of the planning and organization of the DGI.

3.2.Recommendations

- The simplified VAT regime must have virtual tools for the fulfillment of the quarterly statements. This will contribute to the reduction of the costs of tax compliance for this segment of taxpayers.
- It is necessary to review the role of the accountants within companies and their relationship with the tax administration. The study shows evidence that those surveys answered by an “in house” company accountant had better quantitative and effectiveness in the compliance costs.
- Training processes for the taxpayer are important, and more windows of specialized technical consultancy should be added, so taxpayers would have other options than hiring external consultants.
- Administrative costs measurement, completed at pilot level for the fiscal year 2012, will continue to be performed at the DGI. The Administration Division of the DGI has expressed interest in continuing to perform this measurement and keep adapting some procedures so that this would be a faster work thereafter.
- In other words, a results-oriented process management is a decision that the authorities of the DGI should promote.²³ Since 2005, the DGI management is already oriented towards results, according to the provisions of MEF Decree N ° 166/005 (Uruguay, 2005). This results-oriented trend should be based primarily on an analysis of the processes that are involved in the performance, mainly, of the objectives contained in the management’s commitment. Once the plans and the budget are aligned (in a result-based perspective), it will be easier to have a budget associated with the most relevant processes/sub-processes.

²³ The referred decree has an interesting mechanism of management of the budget based on results. This mechanism requires subscription to the MEF from a document called “management contract”. This commitment will establish quantifiable objectives to reach by the DGI over a multi-annual period that shall not exceed the budget period, as well as their corresponding indicators. These objectives will be related to increased compliance with tax obligations through improvement in the services provided to the taxpayer and the strengthening of the fight against fraud and tax evasion. In addition, the DGI will submit to MEF a proposal for annual operating Plan and shall submit a report of results that allow the evaluation of the implementation and fulfillment of the objectives and targets defined in the referred document.

ANNEXES

ANNEX 1 - ABBREVIATIONS

IASS	Social Security Assistance Tax
APOC	Advice on planning, organization and Control
BCU	Central Bank of Uruguay
BPS	Banco de Prevision Social
CCEAU	College of accountants, economists and administrators of Uruguay
CEDE	Special control of companies
CIAT	Inter-American Center of Tax Administrations
DGI	General Tax Directorate
DINAPYME	National Directorate of crafts, small and medium-sized enterprises
FRL	Labor Reconversion Fund
GC	Central Government
IASS	Social Security Assistance Tax
IMABA	Tax on Banking Assets
IMEBA	Tax on the sale of agricultural goods
IMESI	Specific Internal Tax
IRAE	Tax on the Income of Economic Activities
IRIC	Tax on industry and trade Income
IRNR	Tax on income for non-residents
IRPF	Tax on income of individuals
ITP	Tax on heritage
VAT	Value Added Tax
MIEM	Ministry of Industry, Energy and Mining
MSMEs	Micro, small and medium enterprises
MNI	Non-taxable minimum
PIB	Gross domestic product
NFPS	Nonfinancial public sector
UN	United Nations

Annex 2 – Survey data sheet



UN - DESA



SAMPLE DESIGN DATA SHEET

COMPLIANCE COSTS SURVEY

URUGUAY

SAMPLE DESIGN

1. Population and coverage

The study population corresponds to the active taxpayers CEDE, NO CEDE and small business. The concept of small business is defined in the VAT Act specifically to refer to those who are registered to the simple VAT and income tax regime. Taxpayers yields are a group of taxpayers defined in legislation to be subjected to a more rigorous or strict control; they are those who follow in importance the large taxpayers. The following are the taxpayers who are called NO CEDE; that is, they are not under CEDE control.

Major taxpayers, single tax taxpayers and those pertaining to the IMEBA (belonging to the agricultural activity and are very small) are excluded. Taxpayers subject to VAT and IRAE (general regime) that belong to the agricultural sector but which due to their size are indistinguishable from any other taxpayer not agricultural will not be excluded.

2. Frame sample

The sampling frame which determines the size of the sample is formed by active taxpayers (those who submitted their statement of income for the fiscal year 2012) within the single registry administered by the General Tax Directorate (DGI).

3. Coverage and domain

Considering the application of the online survey, all taxpayers located across the country are considered, taking into account the criterion of constituted residence, i.e., the one designated by the taxpayer for the control of the DGI, not the fiscal domicile where economic activities are carried out. There is a strong concentration of taxpayers in Montevideo.

4. Unit of analysis

It is the production unit registered as active taxpayer. Within the unit the responsible for the answer can be: Manager, accountant, or responsible for tax, owner of the productive unit.

The informal sector (non-registered) is not included.

5. Sample size

The mechanism of sampling stratified three regimes of interest will be used to choose the size of the sample: CEDE, NO CEDE and minimum VAT.

The choice of sample size is 750 surveys, which consider a proportional value for CEDE, NO CEDE and minimum VAT taxpayers.

6. Expansion factor

It corresponds to the inverse factor of the sample probability.



7. Sample standard error

A 3.5% to 95% reliability sampling error is suggested.

8. Data gathering strategy

The data gathering process will be carried out using an online survey. This online version would be adapted by the CIAT on the basis of the approved survey.

Annex 3 - Final Version of the Tax Compliance Costs Survey

 UN - DESA		ESTUDIO DE OPINION SOBRE COSTOS DE CUMPLIMIENTO TRIBUTARIO	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">Cuestionario No.</td> </tr> <tr> <td style="width: 50%;">Fecha:</td> <td style="width: 50%;">Hora inicio:</td> </tr> <tr> <td>Encuestador:</td> <td>Hora fin:</td> </tr> </table>	Cuestionario No.		Fecha:	Hora inicio:	Encuestador:	Hora fin:																																		
Cuestionario No.																																											
Fecha:	Hora inicio:																																										
Encuestador:	Hora fin:																																										
Buenos días / tardes. Mi nombre es _____ y represento a _____. Estamos realizando un estudio los costos que generan el pagar impuestos. Le solicito me conceda unos minutos para hacerle unas pocas preguntas. Sus respuestas serán manejadas con total reserva y solo servirán para fines estadísticos.																																											
DATOS DE LOCALIZACION DEL NEGOCIO																																											
A1. Tipo de Empresa: [1] Persona Jurídica [2] Persona Física [3] Persona Física sin actividad empresarial																																											
A2. ¿Qué tipo de contribuyente es usted? (marque la opción que corresponda): [1] CEDE [2] No CEDE																																											
Domicilio Constituido: A2. Ciudad [1] Ciudad 1 [2] Ciudad 2 [3] Ciudad 3 [4] Ciudad 4																																											
A3. Departamento [5] Ciudad 5 [6] Ciudad 6 [7] Ciudad 7 [8] Ciudad 8																																											
NÚMERO CONTACTOS PARA ENTREVISTA EFECTIVA																																											
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DATOS GENERALES																																											
A11. Quien Responde: [1] Gerente [2] Dueño [3] Responsable Tributario [5] Empleado [6] Asesor Tributario Externo (Agradezca y Cierre encuesta)																																											
A8. Género: [1] Hombre [2] Mujer A9 Edad: <input style="width: 50px;" type="text"/> A10 [1] 18 a 25 años [2] 26 a 39 años [3] 40 a 54 años [4] Más de 55 años																																											
A12. Lugar de nacimiento:(ciudad/pais) <input style="width: 150px;" type="text"/> A13. Nacionalidad: Local (1) Otra: (2) <input style="width: 100px;" type="text"/>																																											
A14. ¿En qué año realizó su registro de contribuyente ante la DGI? (marcar sólo 1 opción)																																											
A16. ¿Cuántos LOCALES tiene su Negocio? (marcar sólo 1 opción)																																											
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A17. ¿Qué ALCANCE tiene su Negocio? (marque las que correspondan)																																											
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A18. ¿Cuál es su ACTIVIDAD ECONOMICA PRINCIPAL? LEA EN ORDEN CADA RESPUESTA Y MARQUE UNA OPCION																																											
[1] Agropecuario [3] Industria [5] Artesanos [7] Feriante [2] Comercio [4] Servicios [6] Profesionales [9] Otro (especifique) <input style="width: 150px;" type="text"/>																																											
A19. ¿Cuál fue el nivel de ingresos anuales (Ventas en \$) obtenido por su negocio en el último ejercicio fiscal? (marcar sólo 1 opción)																																											
[1] Menos de \$100 mil [3] De \$501 mil a \$1 millón [5] De \$2 millones a \$5 millones [2] De \$100 mil a \$500 mil [4] De \$1 millón a \$2 millones [6] Más de 5 Millones																																											
A20. ¿Cuántos empleados trabajaron, en promedio, en su negocio durante el año pasado? (marque solo una opción)																																											
[1] 1 [3] De 5 a 10 empleados [5] De 20 a 50 empleados [2] De 2 a 4 empleados [4] De 10 a 20 empleados [6] más de 100 empleados																																											
INFORMACION Y REGISTRO TRIBUTARIO																																											
B1. ¿A que impuestos estuvo afecto su negocio durante al año anterior? (Marque los que apliquen)																																											
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>Impuesto al Valor Agregado</td><td style="text-align: center;">1</td></tr> <tr><td>Impuesto a la Renta Empresarial</td><td style="text-align: center;">3</td></tr> <tr><td>Impuesto a la Renta Personas Físicas</td><td style="text-align: center;">4</td></tr> <tr><td>IVA mínimo (Pequeña Empresa)</td><td style="text-align: center;">2</td></tr> <tr><td>Otro</td><td style="text-align: center;">6</td></tr> </table>				Impuesto al Valor Agregado	1	Impuesto a la Renta Empresarial	3	Impuesto a la Renta Personas Físicas	4	IVA mínimo (Pequeña Empresa)	2	Otro	6																														
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Impuesto a la Renta Personas Físicas	4																																										
IVA mínimo (Pequeña Empresa)	2																																										
Otro	6																																										
B2. ¿Qué medio(s) emplea habitualmente para obtener información sobre sus obligaciones tributarias? (marque las que correspondan)																																											
[1] Oficinas DGI [2] Folletos impresos [3] Pagina Web de la DGI [4] Call Center de la DGI [5] Prensa [6] Radio [7] Familiar/Amistad/Conocido [8] Asesor Tributario [8] Otros [9] Ninguno																																											
B3. ¿En el caso de que utilice un especialista externo para actualizarse sobre aspectos tributarios, indique cual fue la razon principal para contratar sus servicios? (marque las que correspondan)																																											
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: center;">Primera razón</th><th style="text-align: center;">Segunda razón</th><th style="text-align: center;">Tercera razón</th></tr> </thead> <tbody> <tr><td>Exista poca información en las oficinas de la DGI</td><td style="text-align: center;">1</td><td style="text-align: center;">1</td><td style="text-align: center;">1</td></tr> <tr><td>Exista poca información en la Web de la DGI</td><td style="text-align: center;">2</td><td style="text-align: center;">2</td><td style="text-align: center;">2</td></tr> <tr><td>Exista poca información en el Call Center de la DGI</td><td style="text-align: center;">3</td><td style="text-align: center;">3</td><td style="text-align: center;">3</td></tr> <tr><td>Los funcionarios de la DGI no explican debidamente las consultas</td><td style="text-align: center;">4</td><td style="text-align: center;">4</td><td style="text-align: center;">4</td></tr> <tr><td>El asesor tributario brinda información con mayor detalle que la DGI</td><td style="text-align: center;">5</td><td style="text-align: center;">5</td><td style="text-align: center;">5</td></tr> <tr><td>Por falta de tiempo para ir a la DGI a solicitar información</td><td style="text-align: center;">6</td><td style="text-align: center;">6</td><td style="text-align: center;">6</td></tr> <tr><td>Es más barato contratar un asesor tributario</td><td style="text-align: center;">7</td><td style="text-align: center;">7</td><td style="text-align: center;">7</td></tr> <tr><td>NS / NC</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td></tr> <tr><td>Otro</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td></tr> </tbody> </table>					Primera razón	Segunda razón	Tercera razón	Exista poca información en las oficinas de la DGI	1	1	1	Exista poca información en la Web de la DGI	2	2	2	Exista poca información en el Call Center de la DGI	3	3	3	Los funcionarios de la DGI no explican debidamente las consultas	4	4	4	El asesor tributario brinda información con mayor detalle que la DGI	5	5	5	Por falta de tiempo para ir a la DGI a solicitar información	6	6	6	Es más barato contratar un asesor tributario	7	7	7	NS / NC	8	8	8	Otro	9	9	9
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NS / NC	8	8	8																																								
Otro	9	9	9																																								
B4. ¿Cuánto tiempo le toma, en un cierto año, informarse y/o capacitarse sobre las obligaciones tributarias de su negocio ?																																											
Horas al año <input style="width: 100px;" type="text"/>																																											
B5. ¿Utiliza internet para cumplir con sus obligaciones tributarias (declaración y/o pago) de su negocio? [1] SI [2] NO																																											
B6. ¿Utiliza Redes de Cobranza para cumplir sus obligaciones tributarias? [1] SI [2] NO																																											

B7. ¿Cuánto tiempo le tomó inscribirse ante la DGI (Registro Tributario) o actualizar su información tributaria en el año que pasó?
Horas

B8. ¿Que canal utiliza habitualmente para actualizar sus datos en el Registro ante la DGI?
[1] Oficinas de la DGI
[2] Web de la DGI

B9. ¿Qué medio utiliza para el registro contable de las operaciones de su negocio? (marcar sólo 1 opción)
[1] Registros o Libros físicos (Papel)
[2] Registros en Programas computarizados hechos a medida
[3] Registros en Programas computarizados estándar
[4] Ninguno

B10. ¿Cuánto tiempo le toma cada MES únicamente el registro contable de las transacciones comerciales y financieras de su negocio?
Horas al Mes

B11. ¿Cuánto es el valor estimado que gasta habitualmente al MES en Facturas, Formularios, libros contables, registro de libros contables, Programas Informáticos, legalizaciones, timbres profesionales u otros gastos relacionados al Registro Contable - Tributario de su negocio?
Valores en \$

B12. Para operar, ¿su negocio requiere contar con el Certificado Único de Vigencia Anual?
[1] SI [2] NO
↓
[3] ¿Por qué medio lo obtiene?
[1] Oficinas de la DGI
[2] Web de la DGI
[3] En forma automática
[4] Call Center

DECLARACION Y PAGO DE IMPUESTOS

C1. ¿Qué medio utiliza para el llenado de la Declaración Jurada de Impuestos? (marcar sólo 1 opción)
[1] Formularios Físicos (Papel)
[2] Formularios Electronicos cargados en medio magnetico (CD, USB, Diskette, etc)
[3] Otro
[4] Ninguno

C2. ¿Cuántas horas le toma a Ud. el llenado del (los) formulario (s) cada vez que requiere presentar y con que frecuencia realiza esta declaración de impuestos?

	Horas por vez				
	Mensual	Bimensual	Trimestral	Semestral	Annual
Impuesto al Valor Agregado	1	1	1	1	1
Impuesto a la Renta Empresarial	2	2	2	2	2
Impuesto a la Renta de Personas Físicas	3	3	3	3	3
Declaraciones Informativas (*)	4	4	4	4	4
Otras Declaraciones (especifique)	5	5	5	5	5

(*) Deberá agruparse el tiempo total por todas las Declaraciones Informativas que esté obligado a presentar.

C3. ¿Cuántas horas le toma al MES únicamente la presentación de (los) formulario(s) antes detallados ante la DGI?
Horas al Mes

C4. ¿En dónde cumple con presentar sus Declaraciones Juradas y/o realizar el pago de sus impuestos?

	Web de la DGI	Redes de Cobranza	Oficinas DGI	Otros
Presentar las Declaraciones Juradas				
Realizar el pago de sus impuestos				

C4. ¿Qué medio(s) utiliza para realizar el pago de su obligación? (marcar las opciones que correspondan)
[1] Efectivo [2] Cheque [3] Debito Automatico del Banco o Cajero Automático [4] Certificado de Crédito

C6. ¿Cuántas horas le toma al MES únicamente el pago de las obligaciones tributarias en la DGI?
Horas al Mes

CONTROL TRIBUTARIO

D1. ¿Ha tenido alguna acción de control o requerimiento de información de la DGI durante los últimos 12 meses? [1] SI [2] NO (Pase a la Pregunta E1)

D2. ¿Qué tipo de acción o requerimiento particular ha tenido su negocio por parte de la DGI? (Marcar las opciones que apliquen)

Control Formal	1
Verificación de Diferencias en Declaraciones o en Pagos	2
Verificación de Diferencias en Créditos	3
Requerimiento de Información Contable de terceros	4
Actuación Inspectiva	5
Otro	6

D3. ¿Cuánto tiempo requirió para Ud. o para el personal responsable tributario de su negocio el cumplir con esta acción o requerimiento de la DGI?
Horas

D4. ¿Para cumplir tuvo que incurrir en algún costo externo adicional? ¿Cuál fue el costo aproximado de esta asesoría externa?
[1] SI [2] NO
↓
[3] Valores en \$

DEVOLUCIONES DE IMPUESTOS Y RECURSOS																	
E1.	¿Ha realizado solicitudes de devolución de impuestos durante los últimos 12 meses? [1] SI [2] NO (Pase a la Pregunta E6)																
E2.	¿Quién habitualmente prepara y realiza la solicitud de devolución de impuestos en su negocio? [1] Ud. personalmente [2] Responsable Tributario [3] Asesor Tributario Externo																
E3.	¿Si la solicitud la realizó Ud. o el responsable tributario del negocio, que tiempo le tomó? Horas por vez: <input type="text"/>																
E4.	¿Si la solicitud la realizó el asesor tributario externo, cual fue el costo aproximado por dicha labor? Valores en \$ <input type="text"/>																
E5.	¿En caso que su solicitud fue positiva, que tiempo tomó la devolución después de realizada la solicitud? [1] menos de 1 mes [2] 1 mes [3] 2 a 3 meses [4] 3 a 6 meses [5] 6 meses a 1 año [6] Más de 1 año [7] NS - NC																
E6.	¿Ha presentado algún recurso a la DGI en los últimos 12 meses? [1] SI [2] NO (Pase a la Pregunta F1)																
E7.	¿Quién habitualmente prepara y realiza el recurso a la DGI en su negocio? [1] Ud. personalmente [2] Responsable Tributario [3] Asesor Tributario Externo																
E8.	¿Si el recurso lo realizó Ud. o el responsable tributario del negocio, que tiempo le tomó? Horas por vez: <input type="text"/>																
E9.	¿Si el recurso a la DGI lo realizó el asesor tributario externo, cual fue el costo aproximado por el trámite? Valores en \$ <input type="text"/>																
E10.	¿En caso de respuesta de su recurso, que tiempo tomó la respuesta después de realizada la consulta? [1] 1 mes [2] 2 a 3 meses [3] 3 a 6 meses [4] 6 meses a 1 año [5] Más de 1 año [5] NS - NC																
COSTOS EXTERNOS																	
F1.	Durante los últimos 12 meses, su negocio tuvo que pagar por los servicios permanentes de algún asesor tributario externo (entiéndase a un experto que no trabaja en forma dependiente en el negocio pero se requiere su apoyo por su especialidad)? [1] SI [2] NO (Pase a la Pregunta F4)																
F2.	En el caso de respuesta SI, por favor ¿para que trámite/actividad habitualmente se requiere al asesor tributario externo? (marcar todos los que apliquen)																
	<table border="1"> <tbody> <tr> <td>Actualización y Registro de Información en la DGI</td> <td>1</td> </tr> <tr> <td>Registro y Mantenimiento de Libros Contables y Facturación</td> <td>2</td> </tr> <tr> <td>Trámites Habituales en la DGI</td> <td>3</td> </tr> <tr> <td>Declaración y/o Pago de Impuestos</td> <td>4</td> </tr> <tr> <td>Capacitación en temas tributarios</td> <td>5</td> </tr> <tr> <td>Apoyo en requerimientos de Control y Fiscalización de la DGI</td> <td>6</td> </tr> <tr> <td>Apoyo en solicitudes y requerimientos a la DGI</td> <td>7</td> </tr> <tr> <td>Otro Especifique:</td> <td>8</td> </tr> </tbody> </table>	Actualización y Registro de Información en la DGI	1	Registro y Mantenimiento de Libros Contables y Facturación	2	Trámites Habituales en la DGI	3	Declaración y/o Pago de Impuestos	4	Capacitación en temas tributarios	5	Apoyo en requerimientos de Control y Fiscalización de la DGI	6	Apoyo en solicitudes y requerimientos a la DGI	7	Otro Especifique:	8
Actualización y Registro de Información en la DGI	1																
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Capacitación en temas tributarios	5																
Apoyo en requerimientos de Control y Fiscalización de la DGI	6																
Apoyo en solicitudes y requerimientos a la DGI	7																
Otro Especifique:	8																
F3.	¿cual fue el costo aproximado MENSUAL que pagó a su asesor tributario externo por los servicios detallados en la pregunta anterior? Valores en \$ <input type="text"/>																
F4.	Durante los últimos 12 meses, ¿Existieron otros costos de cumplimiento tributario que no hayan sido mencionados en la presente encuesta? ¿Cuál fue su costo aproximado? Excluyendo el monto del impuesto, especifique el valor aproximado [1] SI [2] NO (fin de la encuesta) ↓ [3] Valores en \$ <input type="text"/>																
DATOS DEL ENTREVISTADOR																	
Nombre	<input type="text"/>																
	NOMBRE DEL SUPERVISOR <input type="text"/>																

Annex 4.1 - Letter of invitation sent to selected taxpayers to comply with the tax compliance costs survey (page 1)



GINWER S A
GUERRA JOSE MARIA 3827
12000 MONTEVIDEO, MONTEVIDEO

Montevideo, 6 de mayo de 2013

Estimado contribuyente:

Dentro de los objetivos estratégicos de la DGI para este período, está el de mejorar los servicios de asistencia al contribuyente.

En este sentido, se han impulsado en forma sistemática, diversas acciones que permiten realizar trámites vía Web y/o vía telefónica para contribuyentes de todo el país, como por ejemplo la solicitud del Certificado Único, las modificaciones de datos registrales, y consultas de pagos y retenciones. Próximamente se podrán realizar pagos y comunicaciones usando el celular y el correo electrónico.

El motivo principal de estas acciones es disminuir los costos en que incurren los contribuyentes para cumplir con sus obligaciones tributarias.

Es bajo esta preocupación que la DGI aceptó formar parte de un proyecto piloto impulsado conjuntamente por el Centro Interamericano de Administraciones Tributarias (CIAT) y la Organización de las Naciones Unidas, Departamento de Asuntos Económicos y Sociales de la Oficina para el Financiamiento del Desarrollo (FfDO/UN-DESA, por sus siglas en inglés).

Este proyecto tiene por objetivo desarrollar una metodología estándar para la medición de los costos que tienen las transacciones tributarias para el caso de las pequeñas y medianas empresas.

El concepto de costos de transacción tributario incluye a los costos administrativos (los costos directos en los que incurre la administración tributaria, es decir la DGI, para hacer cumplir las normas tributarias) y también los costos de cumplimiento en los que incurren los contribuyentes.

Para las pequeñas y medianas empresas, los costos de cumplimiento comprenden por ejemplo, la adquisición y/o contratación de recursos humanos, materiales e informáticos que permiten cumplir con la legislación vigente, y también el costo del tiempo insumido en obtener información, asistencia y orientación necesarias para el cumplimiento tributario.

Para tener conocimiento más exacto de estos costos y poder realizar mediciones sobre los mismos, lo más adecuado es realizar una consulta directamente a los contribuyentes. En este marco, la DGI ha diseñado una muestra aleatoria de contribuyentes, quienes son destinatarios de una encuesta que se responde **bajo total anonimato**.

Annex 4.2 - Letter of invitation to selected taxpayers to comply with the tax compliance costs survey (page 2)

Usted se encuentra entre los contribuyentes seleccionados, motivo por el cual ha recibido esta comunicación, junto con el cuestionario de la mencionada encuesta. Estamos muy agradecidos del tiempo que pueda destinarle a analizar este cuestionario y del esfuerzo que realice para responderlo con la mayor precisión posible. Permítame recordarle que el anonimato está totalmente garantizado y que la selección se ha realizado exclusivamente en forma aleatoria. El éxito de este Proyecto radica en la exactitud en las respuestas que usted nos proporcione y así la DGI podrá diseñar, ahora y a futuro, sus estrategias de reducción de costos de cumplimiento basados en su medición real.

Ud tendrá dos opciones para darnos sus respuestas. A través del sitio en Internet <http://www.ciat.org/encuesta/index.php/survey/index/sid/762931/lang/es> donde encontrará las instrucciones de llenado, siendo un procedimiento sencillo que le insumirá unos pocos minutos.

Alternativamente, si lo prefiere, puede completar el cuestionario en papel, que está adjunto a esta carta, y depositarlo en la urna dispuesta en el subsuelo de la sede central de la DGI (Avda. Daniel Fernández Crespo 1534, Montevideo).

Nuestra sugerencia es que ingrese a la dirección de Internet indicada y advertirá que el llenado de la encuesta se presenta en entorno amigable, de fácil comprensión, permitiéndole completar la encuesta en etapas (para el caso que no disponga de toda la información requerida).

En el sitio web de la DGI (www.dgi.gub.uy), en la sección "destacados", encontrará un enlace a la dirección de la encuesta.

La misma estará disponible **hasta el viernes 31 de mayo inclusive**. Esta fecha establece también el plazo que Ud. dispone para depositar la encuesta en la urna, si así lo prefiere.

En caso de dudas o consultas sobre este cuestionario, puede comunicarse a la dirección de correo electrónico ctt@dgi.gub.uy

Una vez más, agradecemos su aporte a este proyecto, del cual estamos convencidos es en beneficio de todos los contribuyentes.

Cordiales saludos,



Cr. Pablo Ferreri
Director General de Rentas

Annex 4.3 -Envelope used by the DGI to send the survey to selected taxpayers (Uruguay Mail)



Annex 5 - Survey strategy and profile of the interviewed.

Considering the conditions in the pilot country and taking into consideration the various survey alternatives that could be chosen, it was decided to choose the online survey. In that sense, arrangements were taken with CIAT so the online version could be implemented through its Web platform.

The online option would not be inconvenient considering that companies of all sizes have access to internet, it is low cost and that the DGI requires the online submissions of almost all returns and the completion of certain procedures.

An important aspect was the participation of the Association of Accountants, Economists and Administrators of Uruguay (CCEAU) who commented on content of the preliminary version of the survey and approved it, in general terms.²⁴ It was important not only to have the vision of the DGI officials on the issue of compliance costs, but also of those in the private sector who are most related to the subject

Scope of the Implementation Strategy:

- The survey was sent to selected taxpayers along with a letter signed by the Director of the DGI as a sponsor of the study and with the support of CIAT and the United Nations; including the logo of both entities.

²⁴ Friday, 22 March 2013 with Mr. Cr. Selio Zak (Vice-President) and Ms. Virginia Romero.

- The letter was designed to show the permanent interest of the DGI in significant improvements for taxpayers, which will be demonstrated in the measurement results. This was a proposal from the General Director. The idea is to convince the taxpayer to participate in their interest.
- The survey was designed to be anonymous.

Letters enclosing the surveys were sent via certified postal mails, Uruguay Mail. The certified mode requires the delivery to a company responsible; it is not left just under the door.

The legal address information was taken from the RUT register but had to complete the Postal code data because in some cases they were missing and it is crucial to identify the domicile with certainty.

- An email address was available to taxpayers (ctt@dgi.gub.uy), for answering any question. The area of economic advice would coordinate the taxpayers' requests with the support of CIAT - UN.
- Through the indicated e-mail address, it was also considered to send e-mail reminders to taxpayers for the purpose of strengthening compliance with the survey. The emails information reported by taxpayers in the RUT was used for this purpose.
- The text of the letter showed the URL where the survey could be accessed.
- Additionally, the leading menu of the DGI Web Portal showed a message regarding the execution of the survey and also sending directly to it.
- Option was given of presenting the survey in paper form, depositing it in a box located in the basement of the DGI headquarters (Av. Daniel Fernandez Crespo 1534. Montevideo).

Survey implementation

The survey was finally executed with the following characteristics:

- Considering that it requires a minimum sample of 250 taxpayers for each segment of interest (CEDE, NO CEDE and minimum VAT), it was decided to select the triple of that amount in order to ensure the required numbers.
- The letter and the survey in an envelope, was sent for notification from May 7 until approximately May 10. The effective initial online survey culminated on May 31. However, it was extended for 1 more week until June 7.
- Around the third week of the survey it was coordinated that the Call Center of the DGI would contact by phone 500 taxpayers to notify them of the survey during the 7th to 10th of May. The purpose of the calls was to remind taxpayers that they should complete the survey within the deadline.

Having an administrator access to the online survey, the local team could track the progress in surveys answered. It could be noted that a significant amount of surveys were initiated but not all were completed and were left incomplete. For example, at 17:00 on March 22, the information loaded on the system of online surveys was as follows:

CIAT SURVEYS

Summary of answers
Complete answers: 349
Incomplete answers: 509
Total Answers: 858

- In order to encourage the filling of online surveys, invitation (letter and survey) were referred to a number of additional taxpayers selected for having an email in the RUT, taking advantage of that good responses were received from those who had a registered email.
- It is important to highlight the fact that, in general, taxpayers responded carefully emails that were sent by the DGI showing that their relationship with DGI was, at least, adequate.
- It was detected that a proportion of taxpayers used an external consultant and that the external consultant was the one who finally completed the survey for several of their clients.

- Throughout the execution of the survey, some problems were identified and solved, often related to computers. The principal ones were:
 - o The online survey considered that the thousands separator should be the (comma) and the decimal separator the dot (.), this did not coincide with the usage in Uruguay to use the comma as a decimal separator and the point as thousands separator.
Solution: A criterion for data correction was agreed with the local team according to the magnitude and inconsistency of data due to having converted the “point of thousands” as “decimal point”.
 - o The lack of the physical presence of a pollster or interviewer prevented that inconsistent data entry, such as time (in hours) and cost (in \$) could be avoided.
Solution: It was not possible to correct this situation due to the absence of a single criterion for the cases identification.

Profile of the surveyed

The most important descriptive data from the taxpayers that completed the survey and formed the sample for the measurement of compliance costs are as follows:

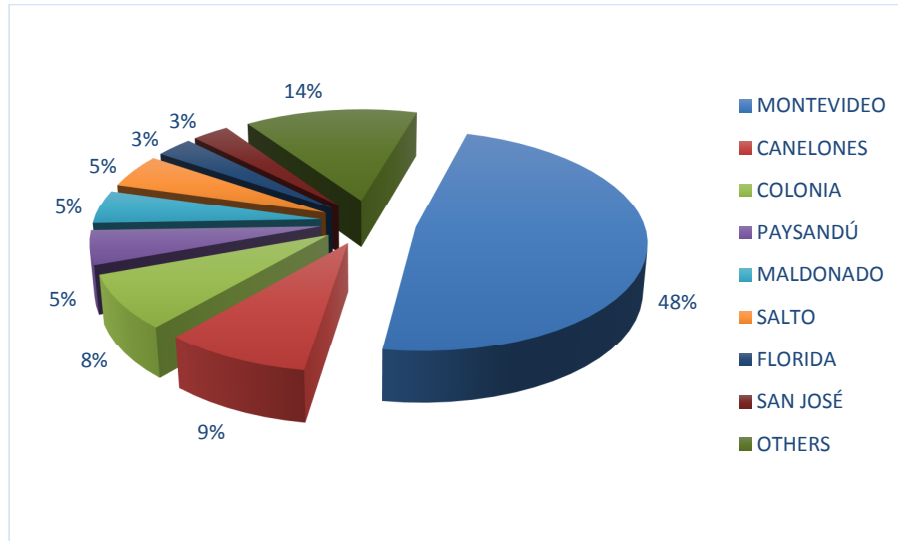
The table shows that the sample of the minimum VAT taxpayers may suffer underrepresentation so an adjustment in this regard will be calculated. It's the opposite with the CEDE and NO CEDE, which require an adjustment to avoid over representation.

Table - Final results

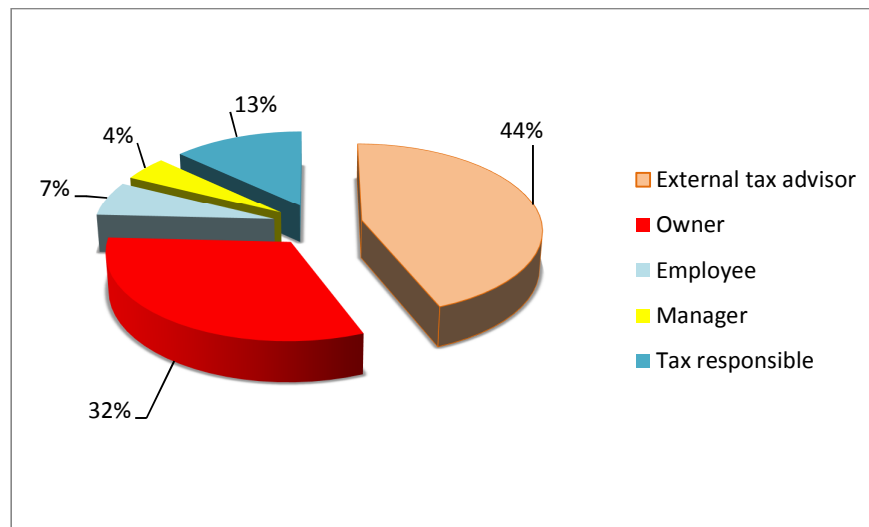
Régimen	Encuestas completas
IVA Mínimo	234
CEDE	580
NO CEDE	337
TOTAL	1151

Chart 27 shows that nearly half of those surveyed were registered in the capital, Montevideo, following in importance Canelones (9%) and Colonia (8%).

Graph 27 - Samples according to the Department of origin 27
(Base: 1122)

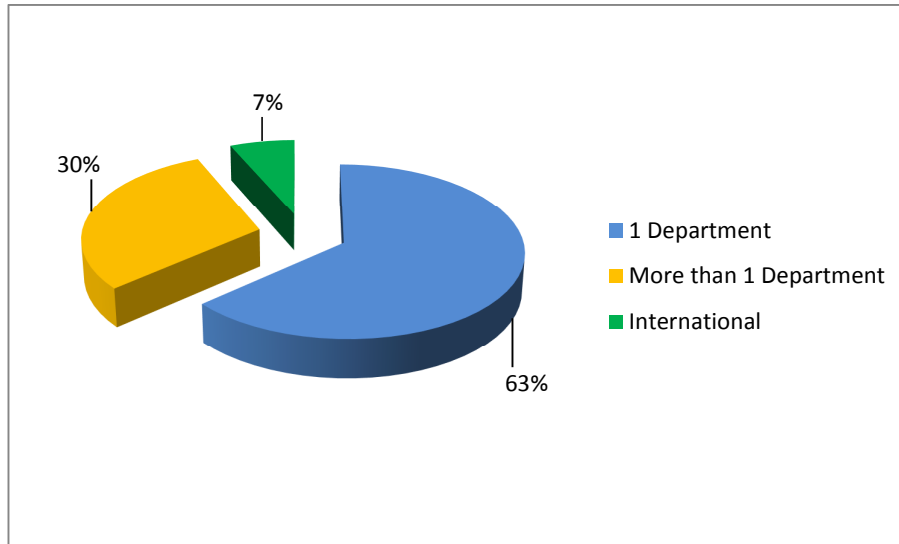


Graph 28 – Company position of those who answered the survey 28
(Base: 1149)



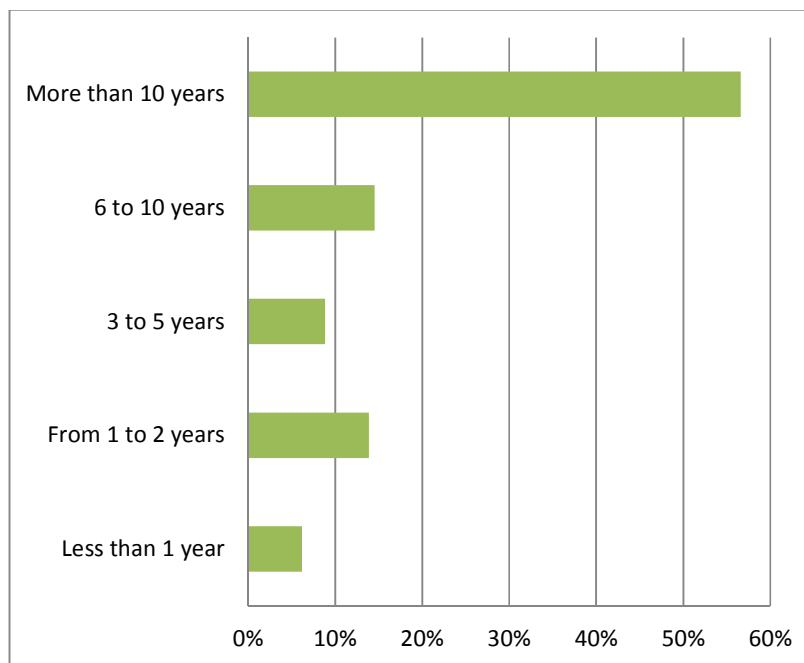
On the other hand, 44% of respondents say they are external tax advisor and 32% that they are the company owner.

Graph 29 - Surveyed company coverage
(Base: 1144)



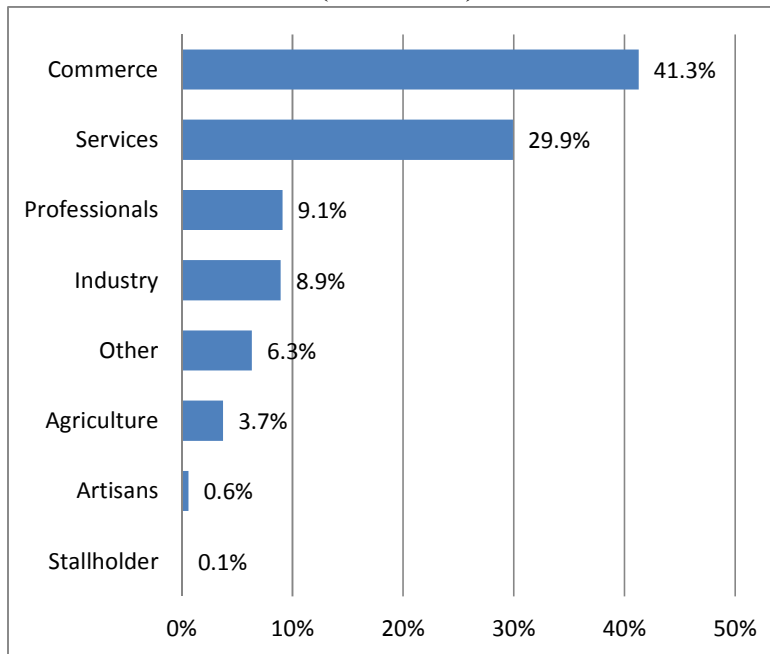
63% of companies surveyed cover one department, while 30% said to be located in more than one department and 7% said to perform operations on international markets.

Chart 30 – Surveyed company operational period
(Base: 1053)



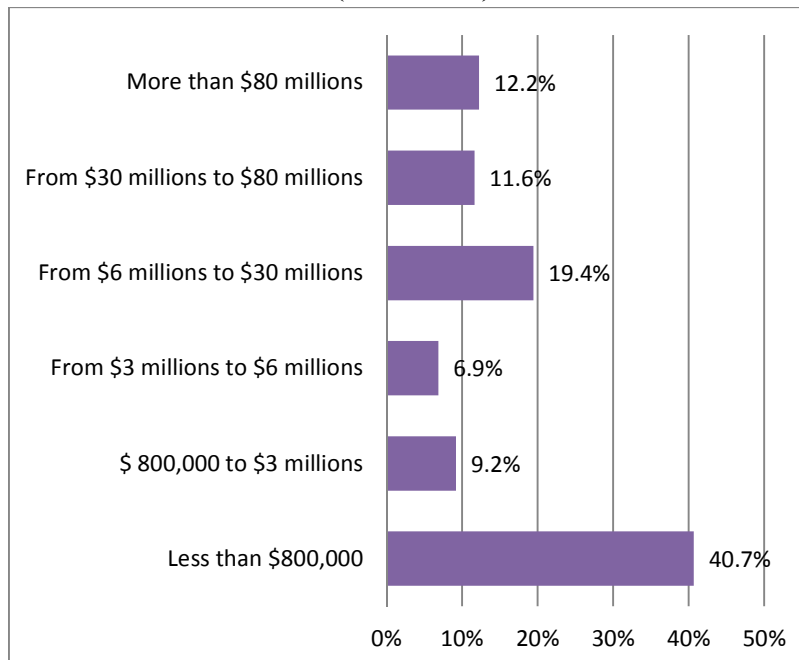
Around 56% of companies reported having more than 10 years of operation and 13% indicated having between 6 and 10 years and between 1 and 2 years.

Graph 31 - Economic Sector of companies surveyed 31
(Base: 1153)

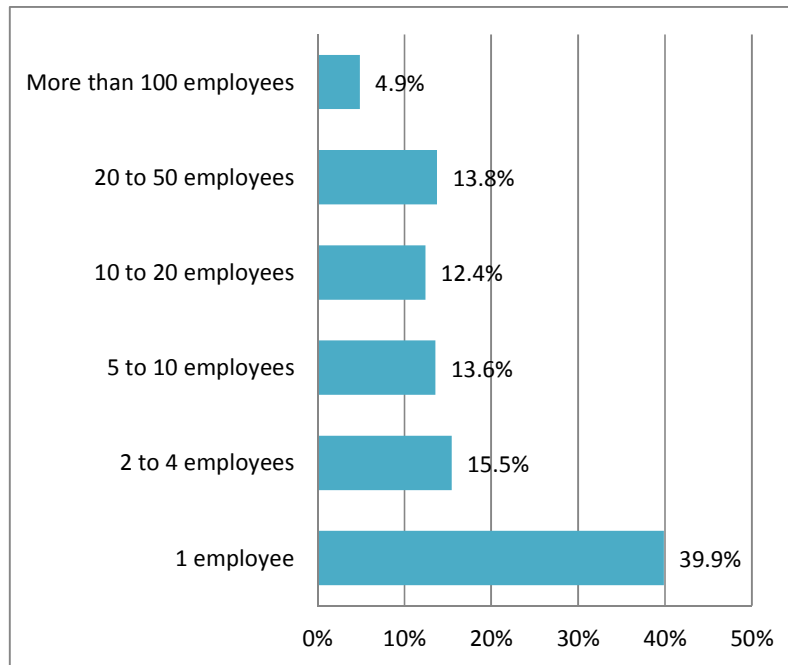


41% of respondents said they belong to the trade sector followed by 30% from the Services sector, 9% to professionals and another 9% to industry.

Graph 32 - Income level of the surveyed companies 32
(Base: 1153)



Graph 33 - number of workers employed in the year 2012 33
(Base: 1126)



40% of the surveyed companies said they had only 1 worker followed by 15% with 2 to 4 workers and

Graph 34 - Type of business registration 34
(Base: 1141)

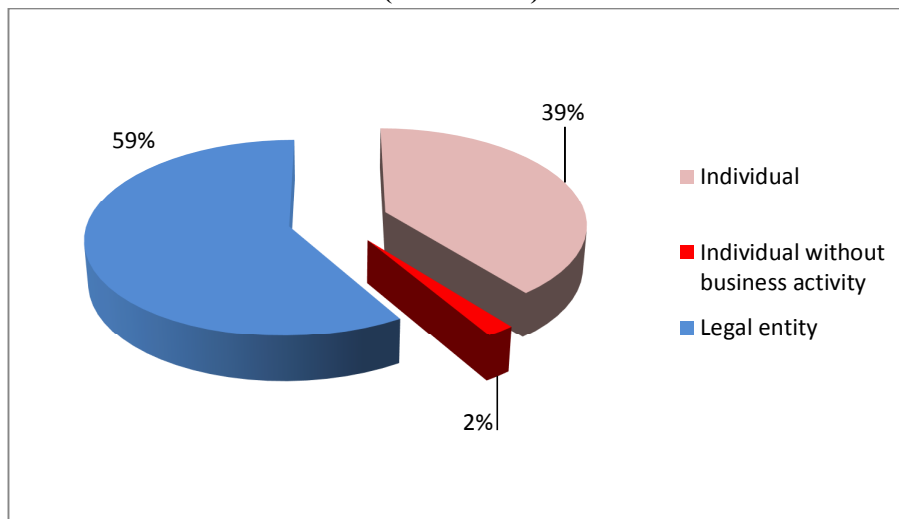
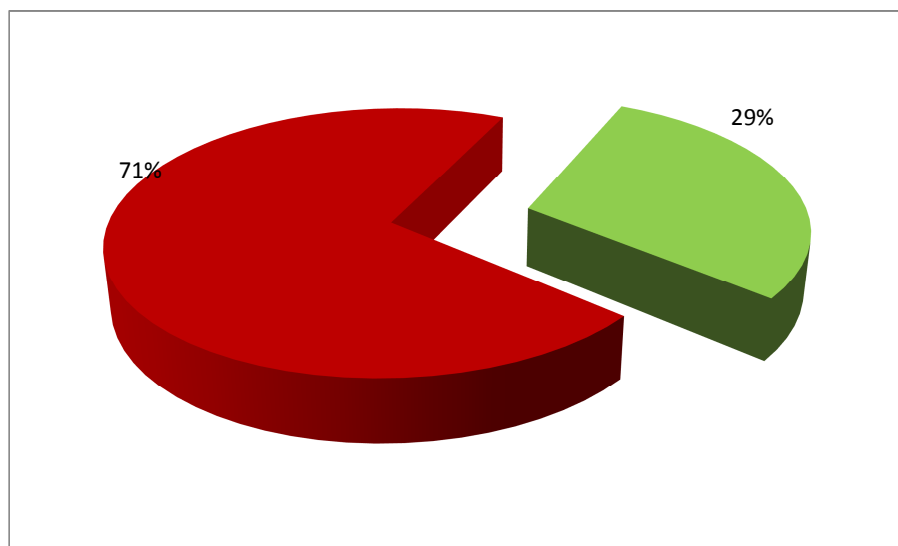


Chart 35 - Type of tax regime in the sample 35
(Base: 1151)



Red: Traditional regime (CEDE and no CEDE)

Green: Simplified Regime

Annex 6 - Determination of the external accounting consultant cost

When a company is not in the simplified regime and, because of its economic dimension, should pay more than the small business tax, it most likely will require external accounting services.

This assertion is based on the monthly VAT payment which by itself implies knowledge in the matter by the employer. In addition, all VAT -contributing companies are also taxpayers for income and wealth taxes.

(For this reason, two options were evaluated for quantifying external advisors fees for companies under the Survey: i) the CCEAU tariff table and ii) study of informal sector in the MSMEs of Uruguay”, as detailed below.

Option 1: CCEAU Tariffs table²⁵

The tariff is approved by the CCEAU, and will be applied for those who have an accounting, Economic, administration or equivalent professional degree throughout the national territory. This tariff shall determine the minimum fee per hour. A fee of at least \$1,300 (a thousand three hundred Uruguayan pesos) per hour is defined, equivalent to US \$65.00.

When the services of a professional are hired on a permanent basis for a general advice on accounting, tax, labor and/or social security, without fixation of schedule, monthly or periodic fees regulation shall be based on the combination of the following factors:- contracted topics. -Time allotted for the task. -Amount of documentation to process. - Complexity of the enterprise, institution or organization. -Taxation regime applicable – needs of support staff, general expenses and supplies.

²⁵ <http://www.ccea.org.uy/sitio/arancel/arancel.pdf>

**Table 30 - minimum fees according to CCEAEU tariffs 30
(By type of company)**

Company type	Minimum fee	Without/with accounting	Fee (US \$ / month)
Microenterprise	1/2 hour / month		32.5
Small	1 hour / month	Without sufficient accounting	65.00
	2 hour / month	With sufficient accounting	130.00
Medium	2 hour / month	Without sufficient accounting	130.00
	3 hours / month	With sufficient accounting	195.00

**Option 2: Data from the study “The informal economy in Uruguay MSMES.”
Analysis of regularization costs for informal businesses (DINAPYME, 2010)”**

The surveys carried out by the authors of the study to public accountants of accounting companies revealed a wide range of criteria for the item corresponding to professional fees.

The mentioned study shows the difficulty for a professional to accurately assess the volume of work that a company will require. It is usual that in addition to the expected work volume and task complexity, when it comes to quote their fees, public accountants consider other aspects, such as profitability of the company and fees charged by the previous professional (if applicable).

Either way, the workload is the most important factor considered by the accounting professionals when it comes to quote fees to a company.

In the workload calculation, according to the survey, the variables are if the company is small (Item E), if there is staff, and whether it is a CEDE taxpayer.²⁶ If the taxpayer must keep accounting, pay VAT, income tax and assets tax, this will entail higher fees.

²⁶ Small businesses or minimum VAT must not submit accounting, or pay VAT, income tax or wealth tax. This implies that the accounting firm management has just to remind each month the quota deadline and process the payment (which in the majority of cases is made by the entrepreneur himself).

At the same time, among the taxpaying companies (of these taxes) the CEDE must submit monthly returns with respect to the VAT payment and withholdings and an annual return with the balance. These cases imply for the accounting professionals a higher volume of work with CEDE taxpayers, as well as the need to be more attentive to details of the accounting and financial management of these companies.

Finally, the other relevant variable when it comes to quote fees by accounting professionals is the existence of employees within the company. The increase in complexity in the payment of salaries - from the income tax registration - has forced the accounting firms to put special attention to the number of employees in the company in order to set their fees.

Table 32 shows the average fees (in dollars) according to the workload for accounting studies.

Table 32 - fees (US \$) public accounting professionals
31

Company type	Fees	
	Montevideo	Inland
Minimum VAT no worker	US\$ 30	US\$ 25
Min. VAT with workers	US\$ 50	US\$ 35
No CEDE without workers	US\$ 130	US\$ 100
No CEDE with workers	US\$ 170	US\$ 120
CEDE	US\$ 260	US\$ 200

Source: DINAPYME (2010)

An important variation in the fees charged by the external consultants can be noted, according to the degree of tax obligations complexity for each type of taxpayer. When the tax system is more complex and with less alternative of simplification, the taxpayer will definitively have to assume higher costs by paying an external consultant.

Annex 7 - Substantive and Support Processes of the DGI

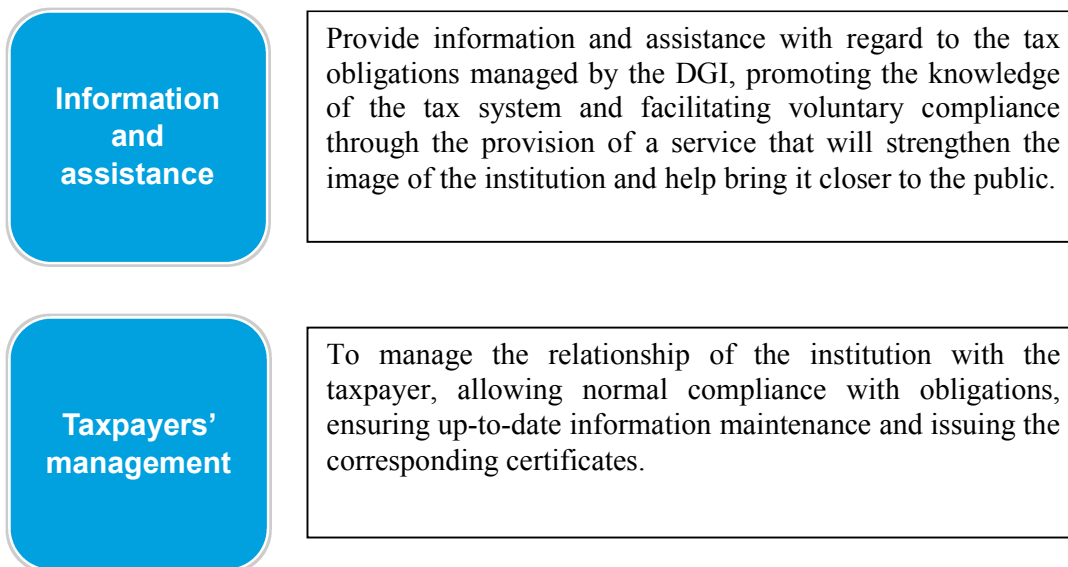
In order to carry out the measurement of administration costs, it was necessary to collect information on the DGI institutional processes and the organizational structure as well as on the number of officials in all organizational units. All this information will be of use to adapt the proposed methodology to the DGI institutional reality.

This work will take place with the support of the APOC and various departments of the Administration Division of the DGI.

In that sense, the DGI has identified activities within the organization that contribute to produce value - optimizing the global performance processes rather than performance within a function-.

7.1 Substantive processes:

They constitute the key processes of the Organization and are directly linked with the Mission of the DGI.²⁷ Here follows a brief objective description for each process.



²⁷Get the collections of the State revenue of the internal tax system through the effective application of laws, promoting voluntary compliance, within a framework of respect for the taxpayers' rights, acting with integrity, efficiency, and professionalism in order to provide a good service to the society.

**Collection
Management**

Activities relating to admission, registration and control of collection, both voluntary and enforced as well as the management and execution of actions for the recovery of tax debts including the granting of payment facilities.

**Extensive
controls**

To complete a massive control of taxpayers with respect to compliance with tax obligations in relation to their statements, credit applications and payments, as well as the consistency of the data available.

**Intensive
controls**

Investigate and verify the proper tax behavior of taxpayers according to their economic reality and proceed to determine and cancel tax debts.

**Legal
management**

Grant legal basis to administrative, judicial and jurisdictional actions and ensure compliance with rules that establish rights and obligations both for taxpayers and for the administration, exercising the representation of the body - as an actor or respondent-in different instances in which their actions are handled.

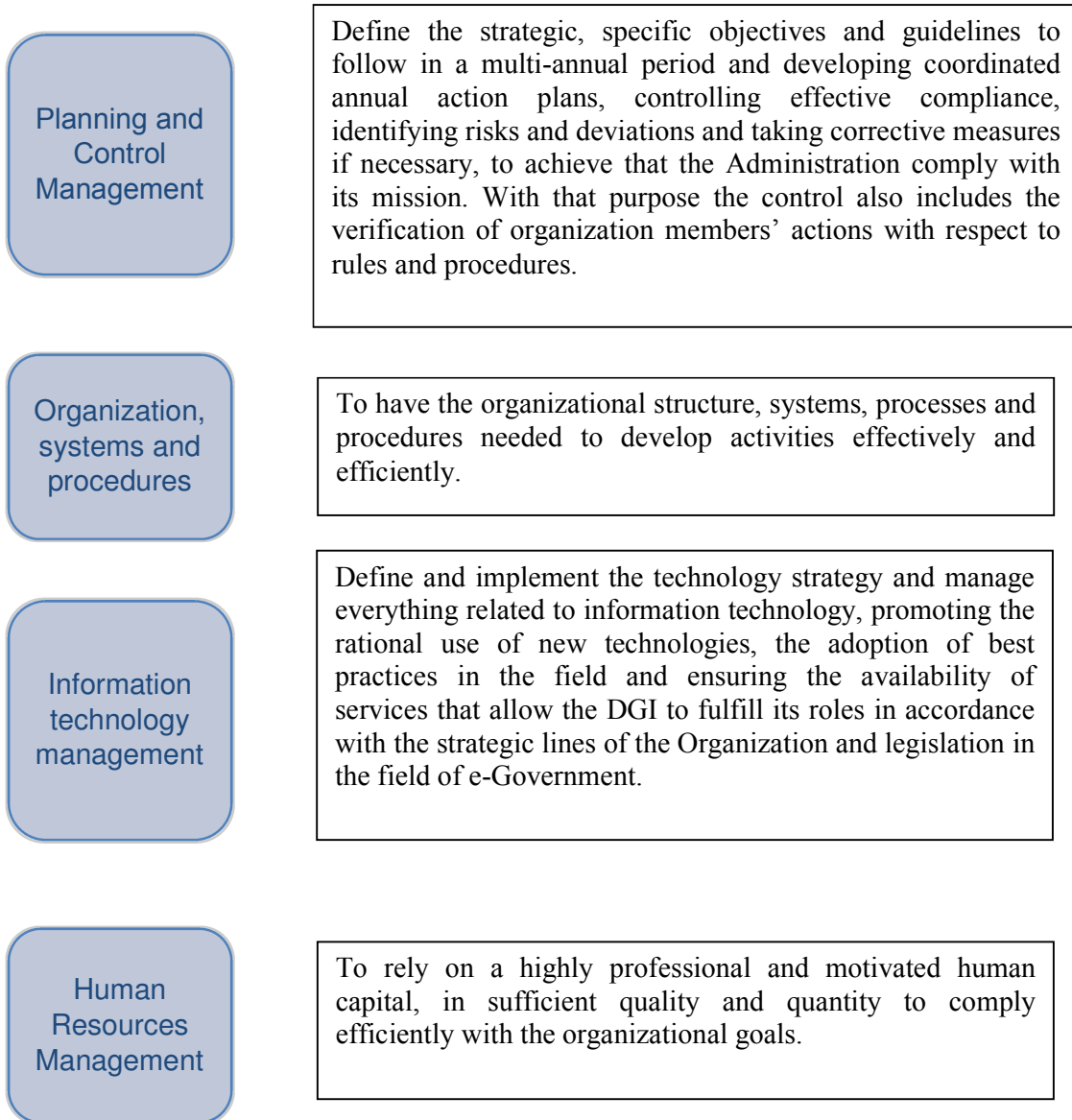
**Tax
legislation**

Develop general or particular tax rules for proper administration of the tax collected by the DGI and promote the necessary modifications for the improvement of legislation, participating in the projects of laws, decrees or international agreements for tax matters.

The description of each process involves an objective, scope and specific activities. In order to measure the administration costs, it is necessary to associate each substantive process with one or several organizational units.

7.2 Support processes

Provide support to substantive processes



Material and
Financial
Services
Resources
Management

Manage financial, material resources and services needed to meet organizational objectives in an efficient and effective manner.

Information
management

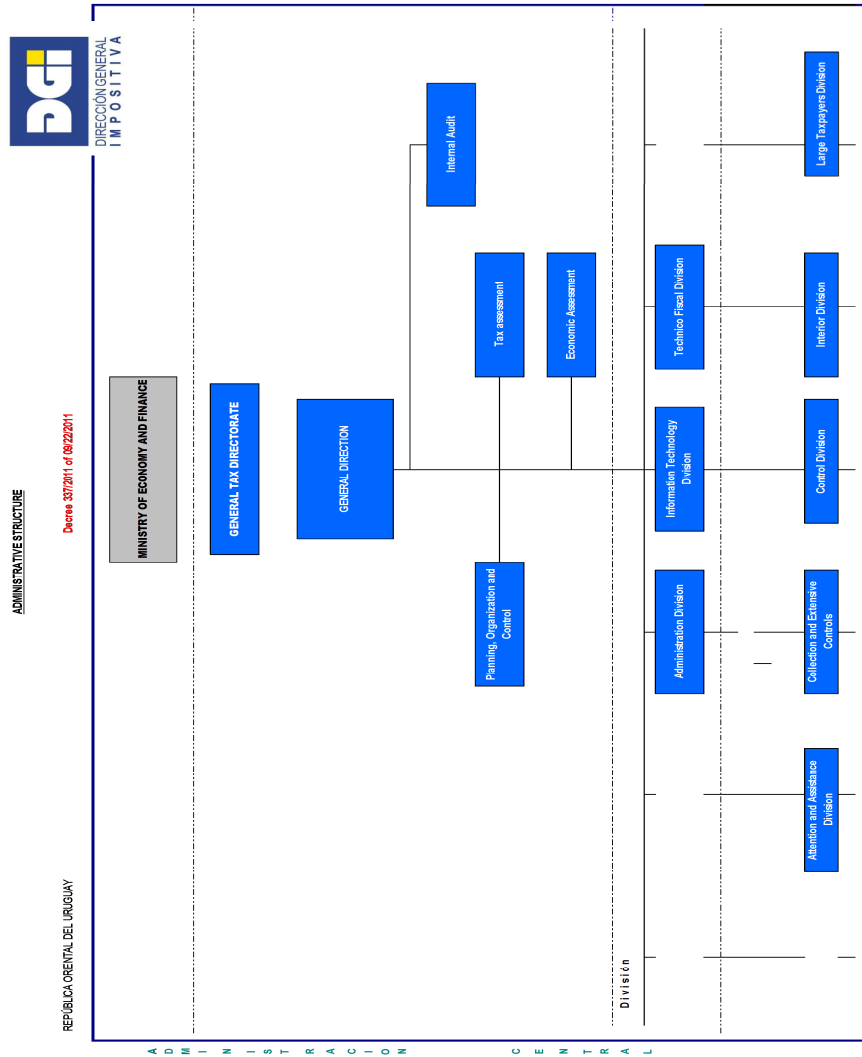
Identify, create, organize and make available to internal or external users the necessary information to enable the development of organizational processes.

Communication
and institutional
image

It manages the organizational communication and inter-institutional relations - by using appropriate techniques and media for the different external and internal audiences-, for the purpose of transmitting and strengthening the image of the Administration aligned with its vision and mission and promoting tax awareness.

7.3 Organization Chart

Graph 34 – Simplified organizational structure of the General Tax Directorate of Uruguay³⁶



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