



CIAT Technical Conference

The Role of Tax Administrations in Tax Legislation.

Control as Key Management Function in Tax Administration.



Amsterdam 2004



Inter - American Center of Tax Administrations - CIAT
Ministerie van Financiën



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Control as Key Management Function in Tax Administrations.

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STATEMENT BY

JORGE EDUARDO ZEGADA CLAURE, PRESIDENT OF CIAT'S EXECUTIVE COUNCIL

In my capacity as the President of CIAT's Executive Council and on behalf of CIAT's member countries, I would like to express our recognition and appreciation to the government of the Netherlands for receiving us once again with their usual kindness and generosity in this beautiful city of Amsterdam, where we will hold our annual Technical Conference.



Jorge Eduardo Zegada Claure

This Conference's two main topics are: The Role of Tax Administrations in Tax Legislation, and Control as a Key Management Function, two issues of utmost importance for tax administrations that this conference will give us the opportunity to discuss and reflect upon.

The first topic -The Role of Tax Administrations in Tax Legislation-addresses the role that tax administrations should perform in the design and implementation of the rules that define the taxes to be levied and of those that will govern the operation of the tax administrations themselves and which will define their powers and duties.

The effective and efficient performance of a tax administration may be affected by an inadequate regulatory framework. To avoid that risk, it is essential to consider tax management as an element of primary importance when drafting tax legislation, allowing the tax administration to participate in the legislation design process.

The second key topic that this Conference will address is Control as a Key Management Function. The design, implementation and enforcement of control systems are an essential instrument to modernize the organization and to improve the effectiveness and efficiency of tax administrations. These systems allow the tax administrator to perform

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a more effective management role, by allowing timely and accurate identification of the goals attained and of issues to be corrected, which improves the decision-making process.

I am sure that this week's presentations and discussions about these two important topics will give us the opportunity to reflect upon these issues and exchange experiences, which –as is always the case with CIAT's meetings- will have positive effects on our performance as tax administrators and on the institutions we represent.

I would not want to conclude without making a brief reference to these meetings and to the work that the Inter-American Center of Tax Administrations has been doing for thirty-seven years. CIAT has become the main international forum in the tax field, not only because of the number of countries and organizations that attend its meetings, but also, and maybe most importantly, because of the high-quality treatment of the topics addressed, which responds in a timely and responsible manner to the interests and concerns of member countries, offering them the possibility to adequately substantiate their viewpoints on an equal footing. Thus, I believe that any new initiative for dialogue on tax matters should not dispense with the proven experience of this Center, but it should rather aim at joining efforts to build on CIAT's achievements, avoiding parallel or redundant actions. This should of course be accompanied by a permanent exercise of self-criticism and continuous improvement of the Center's work.

Finally, apart from reiterating our recognition to the authorities of the Netherlands, I would like to express my appreciation to all the participants that honor us with their presence and who –with their human and professional contribution- will make of this Technical Conference a new opportunity to strengthen our bonds of friendship and find ways that can help our tax administrations become more effective and transparent, all of which should be for the purpose of creating better conditions for the wellbeing for our peoples.

Thank you.

SPEECH BY
CIAT EXECUTIVE SECRETARY,
JORGE COSULICH AYALA

Ladies and gentlemen,

On behalf of CIAT's Executive Secretariat, I would like to warmly welcome all the participating delegations to this Technical Conference. I would also like to deeply thank our distinguished hosts Jenny Thunnissen, Maarten Brabers and Matthijs Alink, as well as their dear collaborators for sponsoring and organizing this 2004 CIAT Annual Conference in this beautiful and historical city of Amsterdam, which, I am sure, will be characterized by the technical and social excellence that we also saw in this same city in 1998. Today, our Dutch friends offer a new opportunity for the CIAT family to reunite in the European continent, which will surely



Jorge Cosulich Ayala

serve to reaffirm and strengthen the bonds of cooperation and solidarity among public tax institutions, which has always been an essential objective of CIAT's activities and the reason for its very existence.

I would like to underscore the importance of the participation and cooperation of European countries in the development and consolidation of our Center. Even if this participation began in the early years of our organization, more than thirty-five years ago, it was first effectively implemented with the signing of the first Cooperation Convention with Germany in 1977, upon which other countries joined in, and today we are glad to count six European countries among our members: France, Italy, Portugal, Spain and the Netherlands as full members, and the Czech Republic and South Africa as Associate Members as from this year, which we celebrate with great satisfaction.

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In particular, in connection with the significant and generous contribution that the Netherlands have made to CIAT, I would like to stress the sponsorship of an important Working Group that drafted CIAT's Manual on Tax Administration Organizational Structure and Management, a highly valuable publication that was welcomed by tax administrations and universities; and also a Working Group that drafted CIAT's Examination Manual, published in 2003, which has quickly become an essential source of reference to strengthen the control function and the training of officials.

I would also like to highlight the technical assistance and training provided by the Netherlands to Bolivia, Ecuador and Venezuela, in connection with examination of oil companies. And finally, I cannot fail to mention how valuable it is for all CIAT member countries to have access to the Netherlands' vast experience and know-how, which makes this country a value reference for innovation and improvement in terms of tax and customs policy and management.

The contribution made by the Netherlands goes way beyond the projects and activities I have just mentioned, since the professionalism, commitment and permanent identification with CIAT's objectives that our Dutch friends have proven to have makes us value their great contribution very highly. Thank you dear Dutch friends for all your support.

Now, going into the subject-matter of our conference, the main topics we will address are the following:

- The role of tax administrations in tax legislation;
- Control as a key management function in tax administrations.

Given that the mission of tax administrations is to apply tax rules in an equitable, effective and efficient manner, it is of key importance that they keep abreast of the latest legislative news and, in turn, lawmakers should ask for the tax administration's input when designing the said rules, in order to make sure that they can be adequately managed. Throughout the presentations and discussions we will exchange experiences with a view to identifying how tax administrations can "add value" to the legislative process.

As regards the second topic - Internal Control, which is addressed for the first time in a CIAT conference, I would like to underscore its importance and point out that having a good internal control system is a key factor for tax administrations to correctly enforce rules, procedures

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and guidelines, optimize the use of resources, and promote the quality of information and its use by management in decision making. What is more, a good internal control system will allow the institution as a whole to effectively and efficiently meet its goals and, in addition, it will allow it to prevent corruption and irregular conduct and take the necessary corrective action. However, it is worth mentioning that the “sine qua non” condition for an internal control system to be implemented and to operate effectively is full commitment and support from the top management.

CIAT’s response to the challenge that Internal Control poses entails two actions: on the one hand, the creation of an Internal Control Working Group, co-sponsored by Spain, with the purpose of drafting a Internal Audit manual or general reference model, including principles, rules and standards which can then be adapted to the specific conditions of tax and customs administrations of the CIAT member countries.

On the other hand, and again with the co-sponsorship of Spain’s AEAT and IDB funding, an important regional internal control project will be developed as from next year, aimed at strengthening the internal control capabilities of the tax administrations of the countries belonging to the Southern region of the IDB, i.e., Argentina, Brazil, Bolivia, Chile, Paraguay and Uruguay.

Since the activities performed by our organization are widely publicized in our monthly newsletter and on our Web page, I will not dwell on them. I will just highlight some activities that are currently underway, which are of great interest for all the CIAT member countries.

Within the framework of the Taxation Studies program, the working groups continue working on their corresponding subjects: the Working Group for Updating CIAT’s Model Tax Code, co-sponsored by Spain; the WG on International Tax Planning, co-sponsored by Argentina; the WG on Fiscal Intelligence, co-sponsored by Brazil, which will soon start working; and the one on International Taxation, co-sponsored by Italy, which will soon complete its mission. I wish to share with you the good news that the IDB is currently in the process of approving the funding of a regional project also aimed at the countries of the Southern region of the Bank, with the purpose of developing and implementing models and mechanisms for the exchange of information among those countries following the CIAT Model Agreement on the Exchange of Information. Also in connection with this program, I am glad to announce that the Working Group on the Code of Conduct and Good Practices, co-

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sponsored by Canada, which is drafting a CIAT Model Code of Conduct and Good Practices to Promote Ethics in Tax Administrations, is well advanced in its work and will present its results in the General Assembly to be held in Buenos Aires next year.

As regards the training program, I would like to highlight the fact that the first version of the distance Master's course, co-sponsored by Spain, the IDB and the Distance University of Spain, is concluding successfully, and the second version of this prestigious program has already started.

CIAT's Executive Secretariat opened its distance diploma in taxation with the modules of tax policy and technique, tax law and international taxation, which enjoyed widespread acceptance among member countries, and other modules on examination and tax management will follow.

I would also like to underscore the successful execution of the Regional Program for Training in Specific Tax Administration Areas, which was co-sponsored by Spain and funded by the IDB, and which will conclude with a meeting of high-ranking officials in Cartagena, Colombia, next November.

Within the framework of the communication and publications program, where we try to make full use of the Internet technology, already available on the CIAT web site are the Library and the On-line Store, for consultation and sales to the public, respectively, of documents and books on taxation. The new CIAT web page, with interesting changes in design and technology, will be presented on the occasion of the correspondents' meeting in November.

In connection with the technical cooperation program, which is very actively processing requests by member countries, with the support of the permanent missions of Spain and France in CIAT, I would like to highlight the successful implementation in several member countries of the Tax Management Model and the new CIAT models for web-based information systems.

Finally, in the area of International Cooperation, CIAT is deeply committed to and fully supports efforts to coordinate activities with other international organizations that are active in the field of taxation, and we thus actively participate in the Committee of International Organizations of Tax Administrations (CIOTA), which is a initiative of regional and international tax organizations created to provide a forum

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to cooperate and coordinate the exchange of experiences, knowledge, information, activities and best practices in tax matters among agencies.

In this regard, I would like to call on our colleagues from the IMF, the World Bank and the OECD –given the clear importance that these organizations have and for the benefit of a true, effective and fruitful cohesion- to cooperate so that any effort they are willing to make in favor of the strengthening and further coordination of international tax cooperation is made within the framework of the CIOTA initiative, which has the consensus and support of a large number of tax authorities throughout the world. Thus, we will be able to give a joint, univocal, proactive and effective answer to the challenges of globalization, especially in terms of the fight against international tax evasion, and an equitable definition of international tax rules.

Finally, I would just like to thank Mr. Rubén Aguirre Pangburn, Undersecretary of Revenue of Mexico, who has kindly accepted to act as the Rapporteur of this Conference.

I wish you all a happy, fruitful stay in Amsterdam and I hope that professional growth and the strengthening of our bonds of friendship, which have always motivated these CIAT meetings, can be fully materialized not just for our own personal benefit but mainly for the benefit of the institutions we represent.

Thank you very much.



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The Role of Tax Administrations in Tax Legislation.
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Amsterdam, the Netherlands
October 4 - 7, 2004

WELCOME SPEECH

MR. JOB COHEN, MAYOR OF AMSTERDAM (THE NETHERLANDS)

Ladies and gentlemen,

As the mayor of Amsterdam and on behalf of the city council it is a pleasure to welcome the 2004 C.I.A.T Technical Conference in our beautiful city, and I am pleased to welcome you as *participants* of the Conference here in the Royal Tropical Institute.

I hope Amsterdam proves to be the right décor for your conference. We have a lot to offer for any critical international audience, but when it comes to tax inspectors and administrators we know we are watched extra critically.

Amsterdam has some characteristics that make it attractive for international conferences, and I hope you will find the time to enjoy our historic and lively city.

Amsterdam has played and still does play a role in international business. Amsterdam was founded more than 700 years ago. What started out as a simple fishing village, rapidly developed into a city in which culture, art and politics went hand in hand with trade and industry. In those early days we could as a city benefit directly from the economic growth as we had more independency in taxation and legislation, than we have today.

Since the 17th century Amsterdam has become and remained a prosperous, outward-looking commercial town, with a reputation of freedom, pluralism and tolerance.

The Netherlands and Amsterdam in particular, have an open and internationally orientated economy. Hence the economy of Amsterdam changed in the past decades from an industrial into a service economy. The main sectors are: the Schiphol-airport, the harbour, the financial centre, ICT, tourism and life-sciences.

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Amsterdam has been chosen by many international businesses as location for their headquarters.

Like many metropolitan cities in the world, Amsterdam has become a melting pot of people of different backgrounds: north-west European, Mediterranean, African, Asian.

Churches, mosques, temples, you will find it all.

The Amsterdam region also has a growing population of newcomers. Indeed, by the year 2010, 50% of the people in the city are likely to be first or second generation immigrants. Many of these immigrants are already Dutch-born and will be by that time hopefully completely integrated in our society.

So, ladies and gentlemen, we offer an international atmosphere. An inspiring atmosphere, hopefully, for your efforts to investigate how to deal, as tax administrations, with the continuing changes in the global economy and fast changes in information technologies. With as major and fundamental ambition: Adjusting your legislation and administrations *dynamically* to the dynamics of the world today.

I strongly value the international exchange of knowledge and experience. Especially, in the field of taxes, as it reflects global economic and political integration.

And I strongly value the effort to harmonize tax legislation and to improve the performance of the tax administrations, as key factors in both economic growth as in public and corporate acceptance.

Ladies and gentlemen, I wish you a very interesting and inspiring conference and a pleasant time here in Amsterdam.

I hope you enjoy the reception, the buffet and the music played by members of the Amsterdam Concertgebouw orchestra.

Have a nice evening, and thank you for your attention.

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SPEECH BY MR. JOOP WIJN STATE SECRETARY OF FINANCE (THE NETHERLANDS)

Ladies and gentlemen,

Just how workable is our tax system? This is a question that probably doesn't occur to you in daily life. In any case, for my part I can say it's not something I ask myself every day. The tax system we use in the Netherlands has evolved over a period of many years. The first outlines of the Dutch tax system with income tax and turnover tax date from the end of the nineteenth century, which makes them more than a hundred years old. And in the century that precedes us, there has been a gradual development arriving at the tax system we use in the Netherlands today. You could say that I am standing on the shoulders of my predecessors at the Ministry of Finance. Each of them contributed to our present-day tax system. And I think that each of you present here today can say something similar about the situation in your own land. And if we haven't stolen ideas from elsewhere in our country, we at least took the taxes of other countries as a model for our own tax laws.

But notwithstanding, today we are discussing the enforceability of our system of taxation. How can we ensure that the Tax Administration can really implement the tax regulations as legislation intends? And what should the role of the Tax Administration be in all this?

I already said: the tax system we know today is primarily the result of many years of development. And because of this, it is probably very interesting to go back in time and see how, throughout the years, taxation has been influenced by the aspect of enforceability. What was required to make taxation work? Or, perhaps more importantly: what made it impossible to implement the tax rules and regulations as intended?

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Roman empire

Let us go back to Europe at the start of the present era. A major part of what is now the Netherlands then belonged to the Roman Empire. The empire stretched from what is present-day Western Europe to the Middle East and the Northern part of Africa. Roman tax law – certainly during the first centuries of the Roman Empire – was a victor's law. Roman citizens were exempted from taxes. The conquered peoples of Europe, Asia and Africa were compelled to pay taxes. Initially, this tax was levied on land. The Romans considered land that they had conquered as belonging to them. So taxes had to be paid in exchange for its use. And an additional tax in the form of a poll tax was levied: every inhabitant of the occupied territory paid a tithe.

Population census in Bethlehem

Pieter Breugel the Elder, one of the sixteenth century Flemish Masters, painted this scene of the population census in Bethlehem. You are probably familiar with the story of Joseph and Maria told in the Bible. Emperor Augustus had issued orders that everyone living in the Roman Empire was required to register. The registration had to take place in the town or city where they had been born. So Joseph and Maria journeyed to Bethlehem, the city of Joseph's birth and where, according to the Bible, Jesus would be born. What was the point of the registration? It was nothing more than a registration for the tax to be paid by each individual. This was used to determine the total number of taxpayers living in the Roman Empire. So you can see that taxation even had very direct impact on one of the most important events of Christendom!

Zacheus

The Bible tells us more about taxes in the Roman era. The Book of Luke says that taxes were collected by tax farmers or *publicani* who paid the Roman Empire a certain fee for the right to collect taxes. The tax farmers could keep anything in excess of what they paid to the Romans. The Book of Luke mentions Zacheus, one of the chief *publicani*, who climbed a tree so that he could see Jesus, a scene depicted on this tile.

From the story it is clear that Zacheus is not looked on kindly by his people. They call him a sinner. The hostility Zacheus inspired was probably because, as a *publicani* he had amassed considerable wealth. This situation is also illustrated by the situation in the Netherlands, when

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the same tax collection system was also in force in the Netherlands until about 1750. A source from the end of the eighteenth century reports that it was not unusual for tax farmers to keep three-quarters of the taxes they collected. And the fact that Zacheus collaborated with the Romans (the occupier!) won't have eased matters.

So this is more or less how the Roman tax system worked at the start of the Christian era. The tax basis was little more than the person of the taxpayer and the amount of ground he owned. Taxpayers didn't have to consent to the tax because the workability of the system was guaranteed by the power of the sword and the occupation. Implementation was primarily a question of the presence of an occupying force. That was enough to be able to collect taxes.

Tax collection with the aid of the power of the sword on the grounds of occupation... It has its limitations and can go wrong. A wonderful example of this is the introduction of a tax measure known as the 'Tenth Penning' in the Low Countries in the middle of the sixteenth century.

Europe 1560

The yellow areas on this map show the areas of Europe that were governed by King Philip II in the mid 1500s. As you can see, he did not just rule Spain and large portions of current Italy. He was also the ruler of the Low Countries, the current territory of the Netherlands, Belgium and Luxembourg. In addition, Philip II was monarch of the newly discovered areas in South America. It is gratifying to pause and consider that the Netherlands and many CIAT members here share a piece of history: we were all once the subjects of the King of Spain.

In the Netherlands part of the empire of King Philip II, things became unsettled in the mid sixteenth century. The area had come under the influence of church reformers like Calvin and Luther. This meant that a growing number of people turned away from the Roman Catholic church and joined the various Protestant movements. This movement is known as the Reformation. The Catholic church tried to repel the Reformation by having Protestants prosecuted by the Inquisition. The highest – or perhaps lowest – point of the Reformation was the wave of iconoclasm in 1566. During this destruction of images, Catholic churches were stormed and the holy statuary and images destroyed. The presence of these images was considered sacrilege and idolatry by the Protestants.

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Duke of Alva

To combat the iconoclastic fury, Philip II sent the Duke of Alva to the Low Countries. The Duke was assigned an army of ten thousand men with orders to restore peace to the rebellious regions. And he did so relentlessly earning the nickname 'The Iron Duke'. This painting shows Alva with Dutch provinces kneeling before him, in chains and at his mercy.

Now you are probably wondering where this story is heading. The Duke of Alva at all events made a major blunder: his ambitions extended far further than crushing the revolt. Alva wanted to introduce a new tax system. Until the arrival of Alva, the tax system was such that the king negotiated taxes with the aristocracy and cities of the Dutch provinces. The king implored them for their benevolence as it were. This was followed by a negotiation process in which the aristocracy and cities, represented in the Dutch Provincial Council, asked for certain privileges in exchange for the taxes they had to pay. The privileges could include the right to build city walls or the right to build a weigh house or *waag* and charge a weigh toll. I'll come back to weigh tolls later.

Alva wanted to do away with the laborious negotiation process with the Dutch Provincial Council and introduce a fixed tax system, the most important tax being the so-called 'Tenth Penning' or *Tiende Penning*. The *Tiende Penning* was a levy of ten percent on all transactions in movable objects: food, furniture, clothing, and the like. In point of fact, the *Tiende Penning* was a sort of turnover tax. The Dutch merchants saw the *Tiende Penning* as a grave threat to their trade, and intensely resisted Alva's plans. Strenuous negotiations followed that lasted for years. The outcome of the negotiations was that Alva would not introduce the *Tiende Penning*. The Dutch Provincial Council promised, in return, to pay two million guilders a year. But the damage had already been done. The persecution of the new Protestants and the threatening tax regulations resulted in the situation in the Netherlands getting so out of hand that Alva could no longer control it.

The Dutch are known as 'merchant-ministers'. Opinions may differ as to which of these capacities was most responsible for the unrest. Did the conflict with Alva get out of control because the minister resisted the persecution of the Reformation movement? Or was it primarily the doing of the merchant who fought against the threatened introduction of the *Tiende Penning*? At all events, the persecution of the Protestants and the threat of the *Tiende Penning* jointly led to a war of independence.

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Lasting from 1568 to 1648, it was known as the Eighty-Year War. Thanks to the Eighty-Year War seven provinces broke away from the rule of the King of Spain, and formed the Republic of the Seven United Netherlands. This heralded the Golden Age – the most prosperous era in Dutch history when Amsterdam was the midpoint of the world, as New York is today.

Alva over-reached himself with the introduction of the *Tiende Penning*: he simply lacked the power to enforce its introduction. And in fact by so doing, had made it an unworkable tax with far-reaching consequences for the power of his boss, the Spanish king, and for the development of the Dutch provinces. And all this because of the threatened introduction of a tax measure ...

There is another interesting historical example of what attempting to levy taxes can lead to. And it becomes even more interesting when I tell you that it can involve a tax that did not need to be paid at all ...

American colonies

This time, the scene is the United States of America. As you no doubt know, the first thirteen American States were colonies under the control of mother England until deep into the eighteenth century.

In the second half of the eighteenth century, a prolonged conflict arose between the American colonies and the mother country about the right to levy taxes. In 1765 and 1767 the English parliament introduced a tax on sugar, coffee, wine, paper and tea, among other things, in the colonies. These taxes were intended to pay for the English army stationed in the colonies.

The colonies were not represented in the English parliament. The taxes were thus imposed from above without them having any say in the matter. This was how the American colonists perceived it. And under the motto: 'No taxation without representation' they fought back. English goods were boycotted and petitions sent to the parliament in London. These actions resulted in the repeal of all tax measures except for one – the tea tax. The tea tax was the most lucrative. But, in addition, the tea tax was a signal to the English parliament that it had the right to impose taxes in the thirteen colonies ...

Because of the tax on tea, a lucrative black market in smuggled tea rapidly emerged. And the American tea market soon became dominated by black market tea. Here it must be said that the Dutch traders still

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showed their shrewd eye for business. The English East India Company couldn't sell its tea because of the high price as a result of the tax, which caused major financial difficulties for the Company. To tackle the problem, the English parliament decided to give the East India Tea Company a full reimbursement of the tea tax. This meant that the Company was able to sell tea cheaper than the smuggled tea. When the Americans were faced with a choice between expensive smuggled tea and cheap taxed tea, parliament thought that the Americans would go ahead and still pay the tax.

In late 1773, three ships heavily laden with tea arrived in Boston in the colony of Massachusetts: the Dartmouth, the Eleanor and the Beaver. A group of colonialists calling themselves the 'Sons of Liberty' prevented the tea from coming to shore. They wanted to send the ships back to where they came from. But the English governor of Massachusetts didn't want to let the ships go without first paying the tea tax. The result was deadlock. And the ships remained in the Port of Boston. But English law required that taxes had to be paid if the tea cargo wasn't unloaded within 20 days. And the Sons of Liberty were decidedly against paying the tax.

Boston teaparty

So it was that, on the evening of 16 December 1773, the Sons of Liberty disguised themselves as Indians. They didn't want to be recognised as they boarded the three ships, took the cargo of tea onto the deck, broke open the chests and emptied the tea into the harbour. This effectively avoided having to pay the English tax. The fact that very cheap tea was thrown overboard didn't stop the Sons of Liberty from taking action. The principle had become more important than the price of the tea.

The events that took place on that evening of the sixteenth of December have become famous as the Boston Tea Party and were a foretaste of the American Revolution that burst into full force in 1776. Here, too, a tax measure had enormous impact and social unrest resulted in making a tax rule impossible to implement.

If you ever visit Boston, you can still see the Boston Tea Party ship in the harbour where the events of 16 December 1773 are re-enacted every day.

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But, after this little excursion to the other side of the Atlantic Ocean, let us return to Europe and the Republic of the Seven United Netherlands. What was the Dutch tax system like in the seventeenth and eighteenth centuries? What immediately stands out is that the taxes levied were mainly indirect taxes. And levies on the primary necessities of life were the most popular. Firewood, salt and beer were all subject to customs duties.

The prime necessities of life were taxed for good reason. Because these are, of course, the staples of everyday life. Firewood was needed to cook. Salt to conserve food. And beer was the most important beverage because water was unsafe to drink. And so, for each of the goods subjected to customs duty, it was said that people couldn't do without them. From the perspective of taxation it was ideal: tax evasion was impossible. And if you managed to monitor points of sale, tax revenues were more or less guaranteed. Talk about enforceability...

Weighing right

In the seventeenth and eighteenth centuries, a sort of general turnover tax was levied, known as the *recht op de waag*, which literally means 'weighing right'. Tradesmen were obliged to market their goods by weighing them. Goods were weighed in the *waag* (which initially referred to the set of scales to weigh goods, and later to the building they were housed in, the weigh house). This meant it was impossible to tamper with the weight of sold goods. An added advantage was that the *waag* or weigh house became the regular place where goods were traded. So taxes could also be levied there: all transactions were taxed with the *recht op de waag*. In many Dutch cities, weigh houses are still standing. The photograph behind me shows the Waag in Amsterdam. It is a building you might come across this week.

What other taxes were there? Here again we see that taxes were mainly levied on the basis of 'immovability'. Land was subject to taxation. Adults were taxed, a sort of toll per capita, similar to the Roman tithes. Taxes were levied on hearths or fireplaces, the so-called hearth tax. If someone had a house with many hearths, it was a sign that it was a large property, and the size of the property in turn indicated the wealth of the inhabitant. The greater the number of hearths, the higher the tax. You could say that hearth tax was an income-related tax 'avant la lettre'.

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Window tax

Another comparable tax that was once implemented was the window tax, also referred to as 'daylight robbery' in later times. The number of windows in a house was also considered a measure of the owner's wealth. While it may be difficult to make an entire house disappear, you can quite easily brick up windows as you can see from the photo. It is quite common to come across old Dutch buildings where the windows have been bricked up. A creative way of avoiding taxation and far simpler than, let's say, an off shore construction ...

So, in the seventeenth and eighteenth centuries, the core of the tax system really had two points of opportunity. First, taxes were levied on everyday staples like salt and beer. Other grounds for taxation were indications of individual prosperity, such as the number of fireplaces in a house. The advantage of this basis for taxation is that it is relatively easy to establish the taxes to be paid. The calculations for determining income or revenue are carefully avoided and implementing the system certainly doesn't require highly trained personnel.

Earlier, I mentioned that, until 1750, taxes in the Netherlands were collected by tax farmers. And that certainly contributed to grounds of taxation like income and revenue remaining firmly out of the picture. The tax farming system probably meant that the taxes were not collected by highly trained people. So the enforceability of the tax would have been decisive in the structure of the tax system that existed at the time.

Pachtersoproer (revolt against the tax farming system)

It is certainly no coincidence that the system of tax farming was dropped around 1750. Two years earlier, in fact, the so-called *Pachtersoproer* or revolt against the tax farming system had occurred in every major Dutch city. People took to the streets to protest at the lucrative farming out of the job of tax collector. They refused to accept the random and unjust tax farming system any longer. Because, as I have already mentioned, tax farmers could easily pocket three quarters of the tax revenues. This print depicts the *Pachtersoproer* here in Amsterdam which took place on Dam Square in front of the Palace on the Dam, immediately opposite what is now the Hotel Krasnapolsky.

In the nineteenth century, no other major changes rocked the Dutch tax system. It was not until the end of the nineteenth and beginning of the twentieth century that significant tax reforms made their appearance.

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Only then were taxes introduced on the basis of income, revenue and capital. This laid the foundations for the Dutch tax system of today.

That the transition was gradual is demonstrated by the 1915 plan to introduce a tax on Christian names. The First World War was in full swing. The Netherlands was neutral, but trade was suffering badly from the war waging in Europe. So extra revenue was required. The Minister who proposed the tax on Christian names asserted that the fact that an individual had more than one Christian name was a badge of affluence. Several Christian names were thus seen as an indication of being born into an affluent family.

The system of Christian name tax was income-related. For those with a salary of up to a thousand guilders, the tax on each extra name totalled two guilders fifty cents. For those with an income of more than 64,000 guilders, each extra name meant an additional tax of four hundred guilders. To prevent avoiding the new tax, it was stipulated that a Christian name of more than twelve letters was counted as two separate names. The tax on Christian names was never actualised, by the way.

But enough history. I began by asking just how ‘workable’ our tax system really is. It is not a question that can be readily answered. Because, what makes a good benchmark for measuring the enforceability of a tax system?

The examples I have given of the *Tiende Penning* and the Boston Tea Party demonstrate that enforceability of taxes has to do with acceptance. Taxes that aren’t accepted lead to opposition. And taxation is a subject supremely suited to trigger enormous friction. So enormous, that accidents can happen. Because in the end, our taxes invade people’s pockets. Which is not something that is always appreciated. It’s up to politicians in the first place to weigh up whether taxes are acceptable and, first and foremost, to explain the purpose of taxes. This can go a long way to making taxes easier to implement.

I am currently working on a major reform of the Dutch corporate income tax. A number of years ago, Dutch corporate income tax was still extremely attractive to the international business community. This led to many companies locating their European branch in the Netherlands, also with a view to the then current tax regulations.

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In the meantime, many other European countries have amended their corporate income tax laws. The adjustments were intended to make those countries attractive to international companies too. At the same time, there was stagnation in the Netherlands. Over recent years, the Dutch tax system has become relatively less appealing. In the past, this would probably have led to bricking up a few windows. Now companies vote with their feet. Companies are leaving the Netherlands, or avoiding it completely.

This is why, for the Dutch economy, it is crucial to make corporate income tax attractive once more. The reform of corporate income tax should, among other things, lead to reducing the rate from 34.5% to 30%. It also needs to be simplified. The idea behind this is that the corporate income tax system should again play a positive part in encouraging international companies to settle in the Netherlands.

What the examples also show, I think, is that taxes should not be more complicated than the tax authorities who have to implement these taxes, can handle. What we consider simple tax systems from the past were in fact simple, and therefore workable in practice. By contrast, you are equally justified in saying that the tax departments of those days were not becoming increasingly advanced, because they only needed to implement simple taxes.

But this is precisely where I see the added value of the Tax Administration when it comes to tax legislation. If the Dutch Tax Administration advises on the enforceability of current or newly introduced legislation, this almost never results in observations that specific laws are impossible to enforce. What it does lead to, is recommendations about what is needed for the sound implementation of a new legislative proposal. For example, an analysis will be made to see if extra manpower is required, and/or whether forms should be amended. And this is how the Tax Administration ensures that the proposal can be effectively implemented once it has come into force.

But it goes a step further. A famous saying goes: all roads lead to Rome. Which means that there are many ways of achieving a particular goal. This often also applies to tax legislation. As a politician I often have ideas. One of my more ambitious ideas is to simplify our corporate income tax. This simplification can take place in a variety of ways. And I'm receiving advice from all sides in the matter – from legislative jurists at the Ministry of Finance, from my colleagues in the cabinet, from representatives of the business community, from professors of corporate

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income tax. Not to mention the Tax Administration. This is how I avoid that a variant on the proposal will later lead to major difficulties for the Tax Administration's implementation practice. When taking my decision, I am already aware of which variants are susceptible to fraud, which variants will cause administrative log-jams and which will bring extra expenses for the Tax Administration. This enables me to take fully informed decisions on reforming corporate income tax at a later stage.

Ladies and gentlemen,

I will conclude my speech. There is still so much to be said about the role of the Tax Administration in advising on legislation. And I am sure that the last word on the matter has not been spoken today. Selecting this topic for the conference is an excellent choice, I think. Because I believe that a Tax Administration that takes an active role in the realisation of tax legislation can be of great value to politicians. With their advice, tax administrations can contribute to the smooth running of tax systems. And the importance of a well-functioning tax system cannot be underestimated, not in the Roman Empire, not in sixteenth and seventeenth century Holland, not in eighteenth century America and *definitely* not in our modern societies of the twenty-first century.

Thank you for your attention.

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**TAX MANAGEMENT AS AN ELEMENT TO BE
CONSIDERED IN THE FORMULATION
OF TAX LEGISLATION**

Lecture

TOPIC 1.

THE ROL OF TAX ADMINISTRATIONS IN SOCIETIES

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*CONTENTS: 1. Introduction.- 2. Field of Influence.- 3. The Law.- 4. Society.-
5. Bridging the Gap?.- 5.1 General remarks.- 5.2 Influencing the law.-
5.3 Influencing society.- 6. Final Remarks.*

*'The art of taxation consists in so plucking the goose as to
obtain the largest possible amount of feathers with the
smallest possible amount of hissing.'*

*Jean-Baptiste Colbert (1619-1683)
Finance Minister to King Louis XIV of France for 22 years*

1. INTRODUCTION

Thought is free. So just imagine: your omnipotent tax administration ...
A tax administration that knows everything, assesses every income
correctly and has no difficulty whatsoever collecting tax money. How
many people should it employ? What should they do all day? And what
should be its attitude towards its taxpayers? What good could it do and
what evil?

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No tax administration is omnipotent and therefore thinking about the features of such an organisation can be no more than a theoretical exercise. Nevertheless, it is a most interesting exercise. For the ultimate consequence of omnipotence may be that the tax administration's activities do not influence the correct assessment and collection of taxes. The tax system works for itself. Prevention does not work, repression does not work either. Administrative and penal sanctions are no longer necessary. And perhaps, for that reason the ultimate omnipotent tax administration is no longer a tax administration in the way we at CIAT know it: tax money keeps flowing in anyhow.

As we all know, tax administrations are not omnipotent. Therefore, their activities and choices *do* matter. Nevertheless, reflecting upon omnipotence may give us some intriguing insight in the choices we make and the reasons for which we make them. In this contribution, I will explore some of the factors that determine the choices we have and the choices we make.

2. FIELD OF INFLUENCE

Jean Baptiste Colbert was Minister of Finance to King Louis XIV of 17th century France. In that capacity he was responsible for filling the French treasury. The building of the Versailles palaces alone made it necessary to raise a great deal of money each year.

The quotation at the beginning of this contribution expresses Colbert's point of view on taxation. It was clear to him that a tax administration's task was first and foremost the levying of as much tax as possible. Furthermore, in the process of levying tax the taxpayer, subject of the tax administration's activities, should according to Mr. Colbert cause as little trouble as possible. Colbert's point of view on the role of taxation is further clarified by the following quotation:

“It is simply, and solely, the abundance of money within a state which makes the difference in its grandeur and power.”

So much for Mr. Colbert ...

Tax administrations function in a field of influence in which many forces play their role. These forces may sometimes confirm one another, but more often they work in different directions. There is no doubt that today's tax administrations are still in the same business as Mr. Colbert's tax

administration: they collect money for the public good. But at the same time, his and our administrations are subject to different influences. Indeed, each CIAT-member functions in a unique field of influence, which is an outcome of the society in which it has to fulfill its tasks. Therefore, the inevitable conclusion must be that the field of influence in which a tax administration has to function, is as complicated as society itself.

Nevertheless, while realising that reality is much more complicated than any classification may do justice, two main influences can be distinguished which are of importance to a tax administration's functioning: tax administrations function in the force field between *the law* and *society*. All other influences can somehow be reduced to either one of these. Therefore, it is these two influences that deserve our attention.

3. THE LAW

Interestingly enough, the law is a product of society. It is society and its political institutions that create the law. As the law is a result of a democratic political process, it ultimately is an expression of public intention. Nevertheless, a gap exists between the law and society, as the law tries to capture society, but never entirely succeeds in doing so. Tax administrations are bound by the law. It is the law that determines the amount of tax that should be levied and collected, and it is the law that determines the competences the tax administration may apply in fulfilling its tasks.

Tax administrations are in the business of applying the law. But the law is faulty in more than one place. First of all, since modern society is far too complex, the law is not capable of capturing society in such a way that every foreseeable and unforeseeable case is covered. Tax administrations therefore have to apply the law in cases not foreseen by their legislators. Secondly, the law is clear in some cases, but can be interpreted in more than one way in others. Here, the tax administration has to make choices on the correct application of the law. Thirdly, the law may demand that the tax administration examines facts on which it cannot get the information necessary for determining whether the law was applied in a correct manner. In these cases, the tax administration either has to find ways to work around the lack of information, or cannot properly assess the taxes due. The omnipotent tax administration has found ways of solving these problems. Our tax administrations however, deal with these imperfections on a daily basis.

4. SOCIETY

The law being a product of society, society demands that the law be applied. But at the same time, society is a collection of individuals who may have demands that do not coincide with the demands of society as a whole. Fortunately, many people are honest taxpayers who want to meet their obligations under the law voluntarily. Other people however, want to minimize their tax liabilities and some of them use opportunities the imperfect law offers. Others go beyond the law and find their way towards defrauding the tax administration, thus defrauding society. Nevertheless, it is the tax administration's task to assure that every taxpayer meets his obligations under the law.

At the same time, taxpayers may have opinions as to how a tax administration should behave in applying the law. They may find that the tax administration is too lax or too strict. They may find that the tax administration is too powerful or, on the contrary, too powerless. They may find that tax administration behaviour is too rude, or too correct. Taxpayer opinion on tax administration behaviour may in its turn affect taxpayer behaviour, finding its way in the taxpayers' fiscal ethics. Once more, it is the tax administration's task to choose its strategy in upholding the law in such a way that it may appeal to the large majority of its taxpayers.

Thus, a tax administration has to uphold the law by examining taxpayer behaviour. In choosing its strategy for upholding the law, it should at the same time take public opinion into account. Our omnipotent tax administration has perfected this job in such a way that taxpayers are in no position to evade their obligations. Therefore, its overall strategy may not be of importance anymore, unless omnipotence is a strategy in itself. Our tax administrations however, have to reconcile their enforcement activities with their overall strategy.

5. BRIDGING THE GAP?

5.1 General remarks

As the omnipotent tax administration does not exist, the gap between the law and society can never be entirely closed. However, in formulating their activities and their strategies, tax administrations can and must try to keep it as narrow as possible. But then, in trying to do so, what are the points of action available? As *the law* and *society* are the key elements

in the field of influence in which a tax administration operates, the tax administration's focus should be on influencing these key elements.

5.2 Influencing the law

In trying to capture society, the law comes about under the influence of many different interests and points of view. These have their focus in parliament. Given the money a state needs to maintain its institutions and services, a certain amount of money has to be raised by means of taxation. By defining the scope of the needed institutions and services, the amount of money needed can be raised or lowered. Once the necessary budget is fixed, the next question is how the tax burden should be divided between taxpayers. At that moment, issues such as the ability-to-pay principle, the necessity to stimulate foreign investments, protection of the environment, etc., etc., come into play. This is what results in tax laws that are more or less complicated.

The tax administration's interests are that the tax law it has to apply *can* indeed be applied. These interests are broader than the narrow interests of the tax administration itself. A workable tax law is also of crucial importance to taxpayers. Also, if the tax administration is able to apply the law in a correct manner, this may ensure that the other purposes pursued by the legislator can be more easily met. Tax administrations should therefore try to promote their interests as the law making process takes place. Without going into the technicalities of applying tax laws, the following items may be identified as being of importance from the point of view of the tax administration.

Comprehensibility

From the point of view of the tax administration, the workability of the law increases as its provisions are more comprehensible. Therefore, a tax administration can offer its services in evaluating legislative proposals as to their comprehensibility. Professionals working in a tax administration can offer valuable insights in the daily practice of applying new legislation. Are definitions drafted in such a way as to cover the object they want to describe? Do different provisions work together properly? Does new legislation fit in with the ways in which the tax administration has applied the law thus far? If the legislator has knowledge of these kinds of issues, he is better able to draft comprehensible statutory provisions.

Working together on a new Income Tax Act

On 1 January 2001, a new Income tax act was introduced in the Netherlands. Preparations for this new act had started two and a half years earlier in August 1998. At that moment, the first outline for a new income tax had been announced as part of a coalition agreement which was at the foundation of a new government.

The new Income tax act was drafted by a project group within the Directorate General for Fiscal Affairs, consisting of three sub groups. Each sub group dealt with particular subjects within the framework of the new act. As much capacity was needed to finish the drafts on time, Tax Administration staff was sent on secondment to assist in drafting activities.

Furthermore, in each sub group a Tax Administration employee participated as a liaison to the Tax Administration. These liaisons could make recommendations on the implications of the legislative drafts for Tax Administration enforcement. Also, they informed the Tax Administration of developments in the sub groups. Thus, the Tax Administration could start preparing for the new Income tax act at the earliest possible moment.

The omnipotent tax administration works with fully comprehensible laws. Our tax administrations should do what is in their power to keep tax laws as comprehensible as possible.

Information

A tax administration's life line is information. Without information, taxation is not possible. Therefore, in influencing the law, tax administrations can assist their legislators in deciding what necessary information for applying a new law is available.

Information can be gathered from different sources. The first source of information is the taxpayer himself. By means of filing returns he has to inform the tax administration of taxes due. Also, the taxpayer usually is under all kinds of obligations to assist the tax administration in its inquiries. He has to answer questions, he has to allow examinations, he has to

hand over his bookkeeping, etc., etc.. But information from the taxpayer alone is not enough. Preferably, a tax administration also needs verifying information. This is the information gathered from others than the taxpayer himself needed to verify information provided by the taxpayer.

The omnipotent tax administration has all the information it needs for a correct application of the laws it applies. Therefore, the availability of information does not limit its actions. As a result, the effectiveness of the tax laws does not depend on the availability of information and verifying information. Information and verifying information are reliable. They are what they appear to be. Tax law can prescribe whatever it wants, as the tax administration will have no difficulty whatsoever in applying the law.

In the real world, information and verifying information are scarce. Taxpayers do not always keep books as required, they do not always file their returns as required, and they do not always voluntarily inform the tax administration of their activities. At the same time, verifying information may be even scarcer. For where is information available on a business that did not voluntarily report its existence? And some people manage to keep themselves outside every information system governments can draw on.

'Windhappers'

In the Netherlands, the Tax Administration can use all kinds of different sources for finding information on taxpayers and taxpayer activities. For example, the Tax Administration has access to the files of the Chambers of Commerce. Most Dutch companies are registered there, naming their principal activity and their management and founders. Even though this information may not always be up to date, it gives a good insight into most business activity. This insight may be enhanced in linking different information systems.

However, some taxpayers manage to stay out of each and every information system available to the Tax Administration. They obviously live comfortable lives, but no information can be found on their sources of income. These people are referred to as 'windhappers', as it

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seems that they live on the wind. Recently, the Tax Administration has started a project to find ways of identifying 'windhappers' and somehow finding their sources of income.

Furthermore, the availability of information also depends on the possibility of the tax administration to make requests for certain information. If information *does* exist, but the tax administration does not have the authority to ask for that information, it is of no use in the process of levying and collecting taxes. Therefore, generally speaking, it is of crucial importance that tax laws take into account what information and verifying information are available to the tax administration. A tax law requiring information that is not and cannot be made available is not enforceable. In guiding their legislators on the availability of information, tax administrations can ensure that they will have the tools necessary for applying the law as it is adopted by their legislator.

Legislative primacy

At this point however, the role of tax administrations in influencing their legislator should at the same time be put well into perspective. Tax administrations should realise that they can assist the legislator, but that they cannot and should not try to replace it. The legislator operates in a field of influence of its own, in which it has to reconcile many different interests. The voice of the tax administration is one of many voices asking for the legislator's attention and action. The legislator is solely and finally responsible for the choices it makes and the weight it attaches to the opinion of its tax administration. Balancing the interests of the tax administration with all other interests involved is a complicated business. And ultimately, making these choices is a task for the legislator and not for the tax administration. The tax administration can offer its services, but has to accept the outcome of the legislative process, whether positive or negative. Nevertheless, this does not discharge the tax administration of its obligation to try playing its role in the legislative process.

5.3 Influencing society

Once the law has come into force, the tax administration has to apply it in the way it was drafted and adopted by the legislator. And – equally important – taxpayers have to apply the new provisions of the law too. From that moment on, it is the tax administration's task to ensure that taxpayers *do* indeed meet the requirements of the law. In doing so, the

tax administration has a whole set of different instruments. Some are of a preventive nature; others are of more repressive character. The tax administration has to find the correct mixture of available instruments to ensure a correct application of the law. And in doing so, it is in fact in the business of influencing society.

Preventive measures

Many taxpayers are naturally inclined to comply with the law. In dealing with these taxpayers the foremost important task for a tax administration is to make sure that they know what they have to do. In assisting these taxpayers, the tax administration can provide them with the correct information about their obligations. By using understandable tax return forms and explanations, the tax administration can guide taxpayers through the filing process. By broadcasting messages and by putting advertisements in papers and weeklies, the tax administration can warn taxpayers what it expects of them. By answering specific taxpayer questions, the tax administration can make certain that taxpayers do not make mistakes in filing their returns.

April fools' day: "Nicer isn't possible, easier is"

In the Netherlands, private taxpayers have to file their income tax return before 1 April of each year. Therefore, during the months of February and March, the Tax Administration reminds taxpayers of their duties in broadcasting messages on radio and television, and putting advertisements in papers and weeklies. Each message is concluded with the overall campaign line of our Tax Administration: 'Nicer isn't possible, easier is'.

Also, during this period, an examination theme is announced. Thus, while filing their return, taxpayers know that the particular theme will be especially scrutinized in examining tax returns that year. This may for example be the mortgage interest deduction, or the deduction for expenses of illness and inability. The philosophy of announcing a particular theme is that this will have a preventive effect. If taxpayers know that they run an increased risk of being examined on a certain theme, they will be more careful in computing their deductions.

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Omnipotent tax administrations function in an environment in which taxpayers somehow know what to do and somehow do what they have to do. Our tax administrations must offer all kinds of assistance to prevent taxpayers from not complying with the law.

Corrective and repressive measures

The omnipotent tax administration deals with taxpayers that somehow automatically meet their obligations. Therefore, corrective and repressive measures are not necessary. Our tax administrations on the contrary have to supervise taxpayer behaviour on a daily basis. In doing so, the tax administration has to make choices.

Tax administrations usually do not have sufficient capacity to audit every taxpayer's return. Therefore choices have to be made which taxpayers should be audited. These choices can be made at random, but it most probably pays off to try and select those taxpayers or tax returns that have higher non-compliance risks than others. For making this selection, some kind of risk selection system is necessary.

'ATV-richtlijnen'

In the Netherlands tax fraud is punishable either with an administrative fine, or with penal prosecution. Administrative fines can be applied by the Tax Administration. Penal prosecution however, is a responsibility of the public prosecutor.

Under the law of the Netherlands, once the choice for an administrative fine or penal prosecution has been made, this choice cannot be reversed at a later moment. Therefore, it is of crucial importance that the correct choice is made early on in the examination process. For that reason, the Tax Administration and the Public Prosecutor's Office have an agreement on the criteria which determine the choice for either one. This agreement is called the Aanmeldings-, Transactie- en Vervolgingsrichtlijnen (ATV-richtlijnen; Selection, Transaction and Prosecution Guidelines).

Starting point of the Guidelines is that the most serious cases of tax fraud must be prosecuted in criminal court. Cases are given a certain number of points based on, among others, the amount of tax for which the Tax Administration was defrauded and the question whether or not the taxpayer is a first offender. Cases with the largest number of points are selected for a penal procedure.

The Guidelines also describe the procedure that must be followed in selecting cases for penal prosecution. Pre-selection takes place within the Tax Administration. After pre-selection, the decision to prosecute a case is taken by the Prosecutor in consultation with the Tax Administration and the FIOD-ECD (the fiscal police, which is part of the Tax Administration).

Furthermore, the Tax Administration and the Prosecutor's Office each year agree on the number of tax cases the Prosecutor will take. Cases that are not selected for criminal prosecution go back to the Tax Administration, where they can be finalized with an administrative fine.

In the auditing process the tax administration will be confronted with taxpayers that did not meet their obligations. In these cases, decisions have to be made about the consequences of such deviations. Sometimes, a simple correction is sufficient. Sometimes, the taxpayer was honestly falsely informed and needs information on the correct application of the law. In other cases, repressive measures may have to be taken, such as the imposition of administrative penalties, or even penal prosecution.

Enforcement strategy

Every tax administration has to develop its enforcement strategy with the preventive and repressive instruments it has at its disposal. In defining a mixture of instruments, an optimum must be sought that works for the society in which the tax administration has to fulfill its task.

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At the same time, societies have certain expectations of their tax administrations. These expectations should play their part in defining an enforcement strategy; they define the starting position from which the strategy has to be built. If a tax administration wants to promote certain changes in taxpayer attitude and behaviour, current attitude and behaviour should be well taken into account. If the chosen strategy does not sufficiently connect with current taxpayer attitude and behaviour, the strategy is doomed to fail.

On the other hand, tax administrations should constantly monitor changes in taxpayer attitude and behaviour. Taxpayer attitude towards taxation in general may change. Taxpayer approval of tax fraud may change. Also, taxpayer attitude towards tax administration performance may change, even if nothing in tax administration performance has changed. These are signals that have to be taken seriously, as they may ask for a change in the mixture of instruments applied by the tax administration. Once the tax administration's strategy drifts away too far from taxpayer beliefs, it will become ineffective. If signals going in this direction are ignored, this may be of negative influence on taxpayers' fiscal ethics.

'Vinkenslag'

Every society has groups of people who have withdrawn from their obligations towards society. In the Netherlands, one of these groups can be found at certain caravan camps. Over the years, their inhabitants have threatened and sometimes assaulted Tax Administration officials. As a result, the Tax Administration had followed a reserved policy concerning the levying and collecting of taxes from such locations. Parliament had been informed on this policy on a number of occasions, usually completed with promises that things would go better once the larger camps would be divided into a number of smaller camps.

Suddenly, at the beginning of this year, a newspaper started reporting on 'tax privileges' at caravan camps, the most famous of these: camp 'Vinkenslag'. As a result, I was called to parliament to explain what had happened. The opinion that this should not be tolerated any more was broadly shared between me and all members of parliament present.

On June 3rd 2004, I have sent a letter to parliament explaining the measures that will be taken with regard to, among others, taxpayers that use violence to escape their fiscal obligations. Part of this plan is a much stricter approach to these caravan camps where the assessing and collection of taxes result in problems. This approach will be coordinated with municipalities, with the police and with other law enforcement agencies.

Interestingly enough, a situation that had been more or less accepted for tens of years, thus suddenly came to a closing. Society did no longer accept that groups of taxpayers would evade their obligations. This tendency is confirmed by a recent report on 'morality in public opinion'¹, showing that in 1991 46 percent of the Dutch population disapproved of tax fraud. This number had risen to 62 percent in 2002.

¹ Sociaal Cultureel Planbureau, De moraal in publieke opinie, March 2004.

Thus, in a way, it is here that society influences its tax administration. And, for its own sake, the tax administration should better be informed of developments taking place in its society.

6. FINAL REMARKS

I have been in office now for almost a year and a half. During the past months I have on a day-to-day basis experienced the complicated field of influence in which the Dutch Ministry of Finance and the 'Belastingdienst' (the Dutch Tax and Customs Administration) have to do their jobs. As society influences the law, the law influences society. And as the tax administration influences society, society influences the tax administration. It is exactly the resulting kind of interaction and tension that makes the position as State Secretary of Finance so interesting. For, in a way, working with the Belastingdienst is working with society itself. Every aspect of modern society is, in one way or another, touched by taxation. In doing their jobs, tax officials and politicians alike should be aware of these interactions and do the right things to prevent unnecessary tensions between the two.

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Today's tax administrations are not omnipotent. As a result, they have to find their way within the field of influence between the law and society, knowing that they will never be able to entirely close the gap between the two. And perhaps that may be for the better, as it gives us something to strive for. Omnipotence would take that away. And, by the way, who has started imagining the kinds of new problems that might come with omnipotence?

Case study

TOPIC 1.1

**FORMS OF PARTICIPATION OF THE TAX ADMINISTRATION IN
THE DEVELOPMENT OF PROPOSED TAX LAWS.
THE PERSPECTIVE OF THE TAX LEGISLATOR**

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(The Netherlands)

CONTENTS: 1. Introduction.- 2. DGFZ and DGBEL- 3. Policy and Implementation.- 4. Co-operation in Practice.- 5. Developments Affecting the Co-operation between DGFZ and DGBEL.- 6. Changes in Laws and Regulations.- Conclusion.

1. INTRODUCTION

One of the two themes of this Technical CIAT Conference covers the role of tax administrations in fiscal legislation. Tax administrations implement tax laws; this means that they are crucial when it comes to collecting sufficient means to finance government expenses. This role is much broader and entails more than just determining the amount of tax owed by the taxpayer and collecting the taxes due. In order to adequately carry out the task assigned to a tax administration, it is important that tax administrations can influence the process leading up to the drawing up of rules and regulations they must subsequently enforce. It is equally important that those involved in policy-making decisions and responsible for preparing legislation, have some control of the implementation process. This appendix outlines the way in which this mutual influence functions in the Netherlands.

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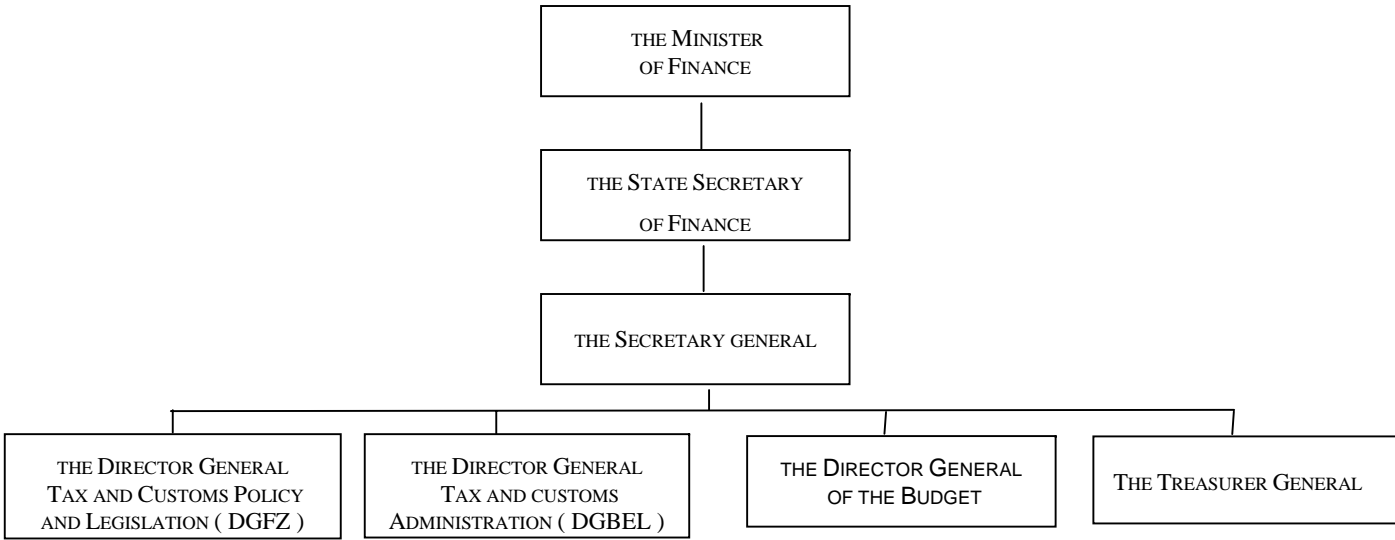
The Dutch Ministry of Finance comprises four General Directorates. Two of these, the Directorate General for the Tax and Customs Administration and the Directorate General for Tax and Customs Policy & Legislation, are dealing with the tax system¹. The co-existence of two tax General Directorates results from the situation that in the Netherlands, preparing tax legislation and fiscal policies on the one hand, and implementing rules and regulations on the other, are organized separately. Each task is overseen by its own General Directorate.

The Directorate General for Tax and Customs Policy & Legislation (DGFZ) prepares decisions in the field of general fiscal policy and prepares tax legislation. The task-set of the DGFZ also includes preparing tax conventions, consulting on international tax agreements and involvement in implementing such conventions and agreements.

The Directorate General for the Tax and Customs Administration (DGBEL) is responsible for managing the implementation of the various tax laws, including customs legislation and non-fiscal legislation of which the implementation has been assigned to the Tax Administration. In the Netherlands, the Tax Administration is the organization charged with the levying and collection of taxes. The DGBEL and the Tax Administration have very close organizational ties. The DGBEL is not only running the Tax Administration but it also outlines general rules on how the Tax Administration is to implement the tax laws. In so doing, the DGBEL forms the link between the DGFZ and the Tax Administration in the chain that connects tax laws and regulations to the implementation practice.

The DGBEL and the DGFZ are shown as follows in the organizational chart of the Ministry of Finance:

¹ The two other General Directorates of the Ministry of Finance deal with (non-fiscal) financial-economic affairs.



2. DGFZ and DGBEL

The DGBEL and the DGFZ have not always co-existed simultaneously. On 1 January 1950, the DGFZ grew out of the DGBEL. Until that time, one single Directorate General dealt with all tax-related issues, from making policies, preparing tax legislation and regulations, to implementing tax laws. The setting up of the DGFZ was a direct result of the outcome of a study conducted by the 'simplification commission' which had been working on the 'preparation of a general reform of tax legislation' since 1948. This commission was set up in order to simplify the tangle of tax laws that was developing in the Netherlands. In 1949, the commission raised the question of whether it might also be advisable to reform the tax system itself. Eventually, this question was answered positively and a decision was made to work towards an organizational split of the implementing task on the one hand and the legislative and policy task on the other.

The then Finance Minister, Liefstinck, suggested to the Queen to establish a new Directorate General for the Tax and Customs Administration. The tasks of this new Directorate General would cover the field of tax legislation, international tax agreements and (customs) tariffs. In his argument, the Minister stressed that the DGBEL should be more practical in nature, whereas the DGFZ should take a more theoretical approach.

Since 1950, the Ministers and State Secretaries of the Ministry of Finance have therefore been receiving recommendations on tax-related matters from two General Directorates. These recommendations have, of course, been the subject of previous consultations and discussions between the DGFZ and the DGBEL. When a recommendation is presented to the Minister or to the State Secretary, it thus reflects the different perspectives of both General Directorates involved.

Looking back at his period of office from 1982 until 1987, the former State Secretary of Finance H.E. Koning made the following comment in 2000 on the co-existence of two General Directorates: "The advantage for me was being presented with the opinions of two different advisors. This reduced the risk of receiving pre-fixed decisions with which I, as a State Secretary, would be sent to the council of Ministers and both houses of Parliament. The recommendations were thus not one-sided. It was possible for me to confer with the Director General for the Tax and Customs Administration on advice on legislation received from the

DGFZ and vice versa; it gave me the opportunity to exchange views with the Director General for Tax and Customs Policy & Legislation regarding advice on its implementation. This resulted in more freedom for me as a politician”.²

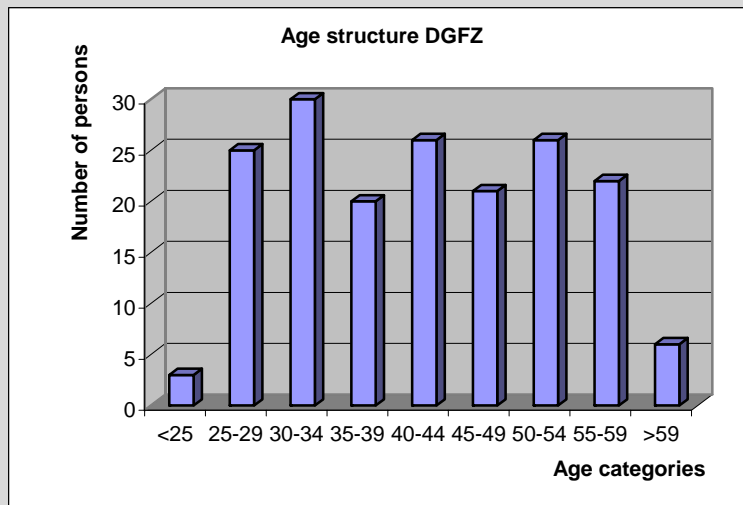
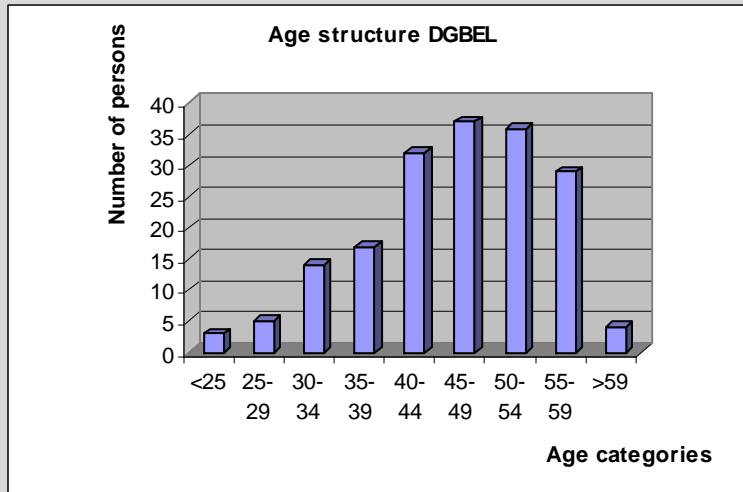
The differences between the DGFZ and the DGBEL are not only expressed in their task-set. They are clearly different organizations, staffed by different people and managed differently. The DGFZ is a line organization of approximately 160 persons, 20 of which holding management positions. The Director General for Tax and Customs Policy & Legislation and his substitute oversee a total of five directorates. These directorates have been divided into departments of approximately 10 people managed by department supervisors. The philosophy of the DGBEL is based on the concept of self-management. The DGBEL is sub-divided in 12 self-managing teams of 10 to 20 persons. In these teams, the employees ‘manage’ themselves as well as each other. The teams therefore do not have separate managers. Together with four other managers, the Director General for the Tax and Customs Administration forms a management team responsible for the supervision of the self-managing teams.

² ‘Gedane fiscale zaken... 50 jaar directoraat-generaal voor Fiscale Zaken’, 26 May 2000, page 34.

Staff

The staff of the DGBEL slightly outnumbers that of the DGFZ. By the end of 2003, 177 people were working for the DGBEL and 155 for the DGFZ, of which 35 percent and 27 percent respectively were women.

The DGFZ mainly recruits staff from recent graduates or people with several years of work experience. The DGBEL mainly hires staff from the Tax Administration. The population pyramids of both organisations are as follows.



3. POLICY AND IMPLEMENTATION

Although both the DGBEL and the DGFZ deal with tax laws and the system of taxation, there are clear differences in their task-sets. Broadly speaking, the DGBEL deals with the current tax system and the DGFZ with that of the future. It should be noted, however, that this is not a strict separation; obviously, the DGBEL also concerns itself with the future tax system and the DGFZ is involved in the current system. This interaction ensures a proper balance between legislation and its successive implementation.

Because both the DGFZ and the DGBEL contribute – each from its own task-set – to the policy-making and legislative process, the ensuing policies and legislative proposals are as comprehensive as possible. From their respective positions, both organizational components are able to take all aspects into full account which allows them to assess what particular aspects are relevant from a political, legislative and implementation angle. If they had been merged into one organization, a critical analysis of the other's task would not be possible; also the multiform interpretation of and response to trends and signals would be jeopardized. For example, a single organization dealing with policy and legislative matters as well as implementation issues, may interpret these external indicators while taking into account the limitations and restrictions resulting from factors other than those strictly related to its own task-set. This could mean, for example, that information on developments coming from the technical implementation field might be neglected because the organization might deem an amendment to the law to be politically sensitive. Consequently, there would be no discussion between two organizations and the assessment would be made tacitly by one single organization only.

In evaluating whether or not the organizational separation of making policy and preparing legislation on the one hand and the implementation thereof on the other, is a good choice, one must also consider the disadvantages of such a separation of tasks. There is a risk that the gap between making policy or preparing legislation on the one hand and implementing the law on the other, becomes so great, that it confronts the implementation field with unsolvable problems. Moreover, policy-makers and legislators may lose contact with daily practice which could mean that their policies and legislative proposals may not be in line with day-to-day circumstances. To avoid these risks, close collaboration, both structurally and incidentally, remains essential; both organizations must always be aware of the contribution the other organization can make to a specific process in order to ensure a continuous cross-fertilization of ideas and suggestions.

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This analysis of the separation between policy and implementation does, of course, not solely apply to the area of taxation. Public administration scientists typically advocate making a separation between making policy and implementing policy. In the Netherlands, discussions on this topic mainly took place in the early 1990s. The advantages and disadvantages of an organizational split between making and implementing policy have been examined in detail in reports and memoranda by both government and political commissions. In all ministries, this resulted in a process in which the policy implementing tasks were organizationally separated from their ministries, which led to the establishment of two organizations: a so-called core directorate, responsible for policy preparation and policy making and an implementation organization, responsible for implementation of the policies adopted.

Policy and implementation

Making tax policy involves answering the questions on how tax laws and regulations are to be formulated and how tax laws and regulations are to be dealt with. Implementing tax policy entails enforcing compliance with the formulated tax policy.

Preparing a legislative proposal to levy an anti-pollution tax on certain activities that are considered detrimental to the environment, is an example of making policy. Assessing whether a taxpayer may be eligible for exemption from paying this anti-pollution tax is an example of implementation. However, if exemption is granted to a large multinational company, as a result of which 25% of the levy under the environmental tax law is excluded, it will have major consequences for the budget and for politics in general. This starts to look like making policy. If the policy makers try to avoid situations like these by formulating watertight policy proposals, they anticipate the implementation practice. If those involved in implementation of the law, use their discretionary powers to make a number of key choices, they act as if they were policy makers.

The separation between policy-making and implementation is not characterised by a clear-cut line but rather by a grey area. As a consequence, the separation between the task-set of the DFGZ and that of the DGBEL is not always clear either. This results in a certain overlap of tasks. On the one hand, the DGFZ attempts to influence the major implementation decisions made by the DGBEL and the Tax Administration because of their wide-reaching political and budgetary consequences. On the other hand, the DGBEL wants to avoid too detailed fiscal policies and tax laws.

The gap between policy and legislation on the one hand and implementation on the other, leads to a certain amount of tension between the tasks of the DGBEL and the DGFZ. This tension is expressed, for example, in the determination of the Dutch business establishing climate. Whether businesses may find it attractive to establish themselves in the Netherlands, is not only determined by fiscal policy in the form of statutory tax compensations, but also by the way in which the implementation organizations deal with applications from potential foreign investors. In daily practice, in which fiscal legislation and tax rules and regulations are a given fact, the way in which foreign investors are treated by the implementing sector is even of vital importance. In this area, the policy and implementation sectors intermingle and although it concerns a task assigned to the implementing sector (DGBEL and the Tax Administration), the DGFZ will always try to influence the way in which the Tax Administration deals with current and potential foreign investors.

4. CO-OPERATION IN PRACTICE

On January 1st 2001, a reform of the tax system took effect in the Netherlands with the introduction of the new Income Tax Act 2001. The DGFZ and the DGBEL worked closely together in preparing this new legislation. During the project, a large number of staff from DGBEL and the Tax Administration worked for the DGFZ on a temporary basis. And although they operated as legislators at that time, their background ensured that implementation aspects were included in the drawing up of the first draft version.

Also for the Tax Administration itself, the new tax system meant a lot of extra work; staff had to be trained or retrained and computer systems had to be adjusted. For reasons mentioned earlier, all this had to be completed under considerable pressure of time. To ensure that new legislation could be introduced on time, correctly and in its entirety, a project organization named 'Tax Reform 2001' was set up within the Tax Administration. This project organization comprised 15 project groups that each dealt with a sub-area of the introduction process. During the legislative phase of the process, these project groups were continually provided with information from the DGBEL and the DGFZ.

Following the reform of the Income Tax Act 2001, the Corporate Tax Act now needs to be thoroughly modernised. This modernisation aims to achieve two goals: the main objective is to retain and improve the

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Dutch fiscal businesses establishing climate. The second goal is making Dutch corporate tax legislation 'EU-proof'. Particularly the European Court of Justice, which has the authority to examine national corporate tax laws for compatibility with the EU Convention, has already expressed the opinion on several occasions that some parts of Dutch corporate tax legislation seem outdated.

This modernisation also requires that all organizations involved work closely together. Close co-operation is already evident from the goals formulated for this operation. Involvement of the DGFZ usually starts following a court judgment against the Netherlands which makes it necessary to amend the tax law concerned. Such an amendment was called for on a number of occasions in recent years, for instance because a substantial budgetary loss was imminent as a result of a ruling of the Court of Justice.

Frequently amending existing laws leads to laws consisting of lengthy articles and paragraphs and often containing numerous cross-references. This makes a law inconvenient to deal with, not only for the taxpayer but also for the Tax Administration itself. To limit the number of these amending laws as much as possible in the future, the DGFZ and the DGBEL will work closely together during the modernisation of the Corporate Tax Act. For example, by studying ideas on a new article or amended articles together and as much as possible from a European viewpoint. And also by trying to anticipate the tax payers' and tax consultants' creativeness and formulating the law accordingly. It is, of course, impossible to make a new law fully EU-proof for ever. But by working closely together, a law can be made of which the basis – from time to time with a little correction – can be used in the coming years.

Given the various forms of close cooperation in a large number of major projects, it might seem that the distinction – and therefore the necessity for making this distinction – between the DGFZ and the DGBEL is fading. However, it is important that both organizational components continue to make their contributions to the policy-making, legislative and implementation process on the basis of their own task-set. In this way, all aspects of changes in policy and legislation will continue to be analysed from different angles. Close co-operation is also required to avoid that one of the parties may start disregarding the interests that primarily belong to the task-set of the other party.

5. DEVELOPMENTS AFFECTING THE CO-OPERATION BETWEEN DGFZ AND DGBEL

Taxpayers, the DGFZ and the DGBEL are all part of a society that is becoming increasingly dynamic. 24 hour economy, technological innovations and globalization are examples of developments that demonstrate that society is constantly changing. In order to keep abreast of these developments, the tax authorities must take into consideration the possible need to adapt to this changing environment.

If this need occurs, they must be able to respond adequately and without delay.

The tax system itself is also subject to trends and developments. For example, instrumentalism has an impact on the structure of the tax schemes. Instrumentalism is used in the aim to realise policy goals with the help of tax legislation. Tax levies can also be used: in addition to their primary task of generating income for the government, they can be used to encourage or discourage certain ways of behaviour. Fine examples of this are the anti-pollution taxes. These do not only serve to generate income, but also to curb unacceptable behaviour by making such behaviour subject of a tax levy. A disadvantage of instrumentalism is that it tends to complicate tax legislation. Of course, tension has always existed between the desire to create a transparent taxation structure and the complex social reality. But the desire to use tax schemes as a political steering instrument adds an extra dimension. Although it will always remain the task of politicians to determine the extent to which instrumentalism should be included in the tax system, the DGFZ, in co-operation with the DGBEL, has a clear task here to inform political decision-makers on all aspects of instrumentalism. The DGBEL will particularly draw attention to the complexity that instrumentalism is likely to create. From a legal (technical) point of view, the DGFZ will do the same in its advice, but it will also include considerations of a more political and economic nature, for example by answering the question whether a specific policy goal might be better reached through a subsidy rather than through yet another tax rule.

6. CHANGES IN LAWS AND REGULATIONS

Indicators that initiate the process leading up to a change of existing policies or prevailing laws and regulations, are received in various ways. There are, of course, the formal and structural circuits in which consultations take place on a regular basis, both internally and externally.

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Internally, frequent consultations on the legislative programme are held between the DGFZ, the DGBEL and the Tax Administration, including the question whether progress has been made in respect of the various tax schemes. The DGFZ also takes part in a number of internal consultative bodies, for example in the so-called Expert Teams (*Kennisgroepen*) in which specialists discuss specific topics such as import and export, and in working groups dealing with the investigation of tax evasion schemes. External sources, in particular the Fiscal Implementation Policy working group and the permanent *van Lunteren* Commission, also function as important indicators. The Fiscal Implementation Policy working group confers with representatives from professional and trade organizations on the way in which tax laws and regulations are implemented in practice. The *van Lunteren* Commission, comprising representatives from the business community, trade unions and other directorates involved, mainly discusses the reduction of the administrative burden caused by tax laws and regulations.

Tax laws and regulations are also amended at the initiative of the DGBEL. The DGBEL receives information from the Tax Administration on aspects concerning the implementation of tax laws and regulations. If several tax inspectors give similar indications, an analysis of how the issue can best be solved is undertaken. For this purpose, the issue is presented to one of the aforementioned Expert Teams. These teams consist of representatives from the Tax Administration, the DGBEL and sometimes also the DGFZ. All members of the Expert Teams have specific knowledge of a special area of taxation. For instance, one Expert Team solely deals with investigating tax evasion schemes. The members of this Expert Team all have wide experience with this issue. The Expert Team maps out the issue and discusses the topic in detail thereby aiming, of course, to find a solution to the problem.

Disseminating information or adapting a policy of the Tax Administration may be successful in some situations, but sometimes it is concluded that the law or regulation concerned needs to be amended. This may occur, for instance, when it appears that taxpayers have discovered a loophole in the law that needs to be eliminated. However, the only way to avoid lengthy proceedings is simply to change the law if it appears that it does not cover a specific situation.

Rounding off creatively

The following is an example of how an amendment of the law proved to be the most appropriate method to solve a problem that occurred in the implementation practice.

A chain store started to apply a special method of rounding off when calculating Dutch VAT. Until that time, it had used the so-called calculation method which means that VAT was calculated as follows: 19% (the general VAT rate in the Netherlands) over a gross price of • 4.50 results in a VAT amount of • 0.855 rounded up to • 0.86.

Although this is the usual method of rounding off VAT amounts, it was as such not embedded in the law. The chain store concerned used this loophole to round off amounts for its own profit. All Vat amounts to be paid were rounded down whereas the VAT charged to the clients was rounded up. In the above example this meant that the Tax Administration received • 0.85 and the client had to pay • 0.86. The difference was taken as a profit by the chain store. A difference of • 0.01 may not seem much, but as a result of the large number of transactions a chain store makes every year, the profit amounted to • 50 to • 60 million per year.

The Tax Administration disagreed with this method of rounding off and also rejected the objection lodged by the chain store. The chain store then lodged an appeal with the Court. The Expert Team charged with investigating tax evasion schemes, had no specific reason to doubt the outcome of the court proceedings; the fact that legal proceedings were initiated were more of a concern. These proceedings could take a long time, leaving the businesses community with an ambiguous directive as to what method to use. Moreover, the risk of competition interference arose, in particular between companies preferring the special rounding-off method and companies that were of the opinion that the calculation method should be used. The DGFZ as well as the DGBEL and the Tax Administration wished to create clarity by giving binding instructions to use the calculation method. DGBEL took the initiative here. Since 1 July 2004, companies have been compelled to use the calculation method.

CONCLUSION

Although the DGFZ and the DGBEL work in close co-operation – not only on a project basis but also structurally – they are separate Directorates General. The separation is the result of the different tasks of each Directorate General. Besides the differences in their respective task-sets, the General Directorates also differ in their organization and management culture.

The DGFZ mainly deals with fiscal policy, preparing tax laws and regulations and tax conventions, whereas the DGBEL is responsible for the implementation of fiscal policy and legislation. By assigning these tasks to two separate General Directorates, the Minister and the State Secretary of Finance receive a wider range of recommendations and can take into account different perspectives. Moreover, the co-existence of two fiscal General Directorates promotes internal discussion on the tax system, as well as on the political and technical aspects involved in legislation and implementation. The gap between policy-makers and legislators and day-to-day practice must not be allowed to become too wide. This could result in policy-makers and legislators providing the implementation sector with laws and regulations that are not in line with daily practice in terms of implementation and enforcement.

The organization of the collaboration between the two General Directorates has an informal character, in particular as concerns the daily work activities. In projects such as the tax law reforms, however, co-operation takes place on a more formal basis and staff can be grouped together in one project organization. Links between the dossiers handled by either or both Directorates General, are compiled with the aid of the informal network that links both managers and staff of the two General Directorates.

The dividing line between policy and implementation is often ambiguous and therefore thin. This means that the task-sets of the DGFZ and the DGBEL overlap in many fields. Moreover, both sides attempt to have an influence on the work of the other and to restrict each other's tasks.

The tax system is subject to many influences. It sometimes seems that taxation is a daily concern of everybody. All those influences – from citizens, taxpayers, businesses, national politics, international politics, pressure groups, tax consultants– are combined in the recommendations given by the DGFZ and the DGBEL to the Minister and the State Secretary. It goes without saying that these recommendations also reflect the views and positions of the DGFZ and DGBEL: often united, sometimes different but always arrived at –in the best Dutch tradition– by mutual agreement.

Case study

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**FORMS OF PARTICIPATION OF THE TAX ADMINISTRATION
IN THE DEVELOPMENT OF PROPOSED TAX LAWS.
THE PERSPECTIVE OF THE TAX LEGISLATOR**

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CONTENTS: I. Introduction.- II. Structure of the Mexican State: Legal Framework.- III. Interaction of the Executive Power (SHCP) and the Legislative Power: Tax Legislator.- IV. Transformation of the Scheme of Relations of the Executive Power and the Legislative Power: National Treasury Convention.- V. Conclusions.

I. INTRODUCTION

In the case of Mexico, the ways in which the Secretariat of Treasury and Public Credit (Secretaría de Hacienda y Crédito Público - SHCP) has participated in the development of legislative proposals is explained, necessarily, from the framework that the Political Constitution of the United States of Mexico has established for the interaction between the Executive and Legislative Powers and, in tax matters, between the different levels of government: federal, state and municipal.

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The previous relations were influenced by the government system where the party of the Executive occupied the majority of the Houses within the Congress of the Union. By such virtue, the creation and drafting of tax law proposals has mainly been the responsibility of the Executive Power, through the SHCP, same that were previously approved by the Legislative Power without any latter modifications.

However, the alternation in the Presidency of the Republic, and the lack of majority in the Congress Houses, have resulted in a critical and active participation by the Legislative Power in the design of tax laws that, in many cases, derived from the constitutional process established for the formation of laws, has resulted in standards that do not solve the real problems of the country and that condition the efficacy of the same.

The situation described above, combined with a centralist tax model that has generated a high dependence by the state and municipal governments on the federal government's revenues, made promoting structural reforms at all levels an imminent need.

This is how the initiative to convoke the First National Treasury Convention (First National Treasury Convention (Primera Convención Nacional Hacendaria) is born, involving a republican, democratic and participative meeting so that representatives of all government agencies and levels, listening to the civil society, promote a more dynamic and fair economic development through the definition of responsibilities in public resources matters, that is to say, their generation, legislation, administration and application.

In this order of ideas, the development of legislative proposals in Mexico, has been enriched by the Convention, by bringing closer the relation between the Executive and Legislative Powers.

II. STRUCTURE OF THE MEXICAN STATE: LEGAL FRAMEWORK

The Political Constitution of the United States of Mexico is the axis of our juridical system, it structures the State by defining the fundamental mission of the same and the main public policy lines, aimed at providing attention to the main needs of the population and promoting the development of the country, from an adequate balance of the action of the governmental, social and private sectors.

Said Constitution, not only outlines the ambits in which the State must act, but sets the limits that mark the boundaries of its action in the pursuit of their assignments, same it must observe respecting the freedom and autonomy spaces that the very Constitution establishes both for individuals and the civil society at large.

In this sense, the Federal Constitution establishes the basis of the National Sovereignty and the way in which the government of the Mexican Republic, which is constituted and organized by the will of the people, in a representative, democratic and federal manner, made up by the Free and Sovereign States in all that respect to their interior regime, in their capacity as integral parts of the Federation.

Likewise, the States adopt for their interior regime, the form of a republican, representative and popular government, having as basis for their territorial division and their political and administrative organization, the Free Municipality.

In what respect to the organization of the Federal Power it is established that the Supreme Power of the Federation is divided, for its exercise, into Legislative, Executive and Judiciary Powers.

The Legislative Power, is deposited on a General Congress divided into two Houses, one for representatives and another one for senators.

The exercise of the Executive Power is deposited on a single individual called President of the United States of Mexico.

In turn, the exercise of the Judiciary Power of the Federation is deposited on a Supreme Court of Justice, in Collegiate and Single Judge Circuit Tribunals and in District Courts.

In this manner, the Powers of the Union and those of the Federative Entities themselves act within the terms established by our Superior Law, following the general principle that the powers that are not expressly granted by said Supreme Law to federal servants, are understood as reserved to the States.

Now then, the power of each one of the Powers are expressly established in the Constitution, however, beyond each constitutional body or power having a function, each one of them has a set of competences to participate in or to fulfill in the fulfillment of specific functions.

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Thus, for example, the right to start laws competes to: (i) the President of the Republic; (ii) the representatives and senators in the Union Congress; and (iii) the legislatures of the States whose presentation, discussion and approval procedure is regulated by the very fundamental law.

In the Mexican juridical-tax system, the power is translated into the exercise of the State's tax power, which arises when the State, acting with sovereignty, determines what the facts are or situations that, when they take place, will make private citizens find themselves in the obligation of making the payment of the contributions.

On the other hand, complementing the exercise carried out by the Legislative Power on tax matters, it corresponds to the Executive Power, in its capacity of Tax Administration, to determine or verify when the facts or situations that generate the obligation of paying contributions have taken place; point out or determine the amount of the payments, or rather, verify if the services or payments made are pursuant to the Law.

Being this the state of affairs, in our country the tax power is exercised by Legislative Power, in federal matters, and by the Legislative Powers of the States, in local and municipal matters, when they issue the laws for each contribution and, every year, they indicate in the Revenue Laws, both federal and state, which of those contributions will be in force.

In this order of ideas, the Federation has:

1. An unlimited general power to impose the contributions necessary to cover the budget,
2. An express power to establish contributions in specific matters, and
3. Implicit powers derived from the prohibitions established in the Constitution for the States.

In turn, the States count with:

- a) Generic powers derived from the obligation of all Mexicans of contributing to the public expenditure of the Federation, of the Federal District or of the State and Municipality where they reside, as well as due to the fact that the States are "free and sovereign in everything concerning their interior regime";

- b) Powers conditioned to the authorization by the Congress of the Union, to establish port duties and to impose duties on imports or exports.

Notwithstanding the foregoing, the Constitution itself sets limits to that tax power of the States establishing diverse prohibitions.

Therefore, with basis on what is provided in the Fundamental Law, it may be concluded that the legislative powers in tax matters are divided in the following manner:

- Unlimited concurrent powers of the Federation.
- Exclusive powers of the Federation granted in an express manner.
- Federation powers granted as prohibition o limitation to the States.
- Concurrent powers of the States limited by the constitutional prohibitions and reserves in favor of the Federation.

Now then, when the Legislative Power exercises the tax power, the House of Representatives has the exclusive power to annually examine, discuss and approve the Disbursements Budget of the Federation, first determining the contributions that must be decreed to cover it. To that end, it is necessary that the Executive Power, represented by the President of the Republic, complies with the obligation of sending to the House of Representatives the corresponding draft Law and initiative.

Now then, in the exercise of the attributions and for the execution of the federal administrative affairs entrusted to the Executive Power, the Organic Law of the Federal Public Administration establishes, among others, the State Secretariats, which exercise the functions of their competence by agreement from the President of the Republic and, also, elaborate the corresponding draft Laws, regulations, decrees and agreements.

Among the State Secretariats, we find the Secretariat of Treasury and Public Credit (Secretaría de Hacienda y Crédito Público - SHCP), in charge of studying and formulating the draft Laws and fiscal provisions, as well as of collecting federal taxes, improvements contributions, duties, proceeds and uses in the terms of the applicable Laws and monitor and ensure the compliance of the fiscal provisions.

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At the head of the SHCP, we find the Secretary of the Bureau, who is originally in charge of the representation, management and resolution of the matters under the competence of the Secretariat.

In this sense, the Internal Regulations of the Office points out that, the Secretary has non-delegable powers, among which there are those of proposing to the Federal Executive the draft Laws and initiatives relating to the matters under their competence.

Likewise, the Federal Fiscal Code establishes that the collections coming from all the revenues of the Federation, will be done by the SHCP or by the offices authorized by said Secretariat.

From the above we infer that the taxation power is the competence of the Executive Power, which exercises it through the incumbent of the aforementioned Secretariat, through the management and collecting power.

In turn, to ease the affairs under its competence, the Secretary of Treasury is aided by public servants and Central Administrative Units.

Among the public servants, we find the Undersecretary of Revenues; one of his powers is to propose to the Secretary the draft Law and initiatives in matters of the competence of the administrative units assigned to his responsibility.

In this manner, among the Central Administrative Units that are assigned to the Undersecretary of Revenues, we have the Revenue Policy Unit (Unidad de Política de Ingresos - UPI) and the Tax Legislation Unit (Unidad de Legislación Tributaria - ULT).

Pursuant to the powers granted in the aforementioned Internal Regulations, the UPI is in charge of proposing the revenues policy including the fiscal policy, that of fiscal coordination and that of the fiscal incentives, so that the national economy develops congruently with the public treasury policy and the economic and social policy of the country.

To that end, it requires to coordinate with other competent administrative units of the same Secretariat, of the Tax Administration Service (Servicio de Administración Tributaria - SAT), with other offices and entities of the Federal Public Administration and, if the case may be, with the federative entities and municipalities.

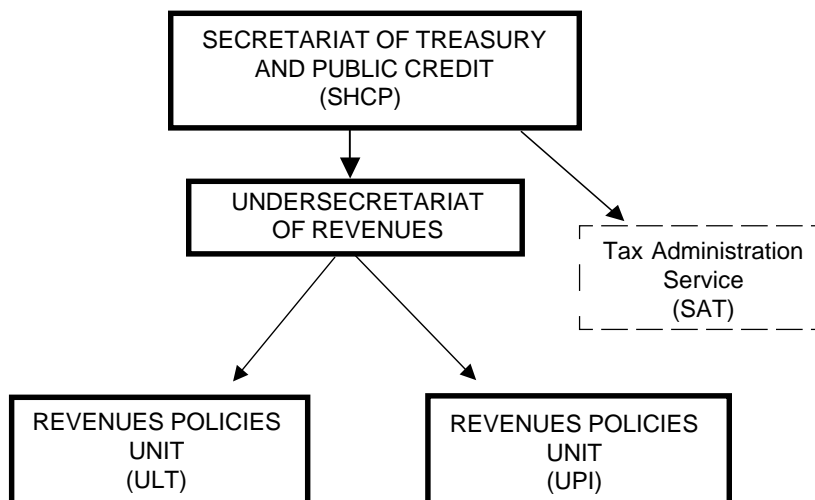
Likewise, it evaluates the collections effect of the proposed reforms in fiscal matters.

In turn, the ULT is the Administrative Unit that has the power to formulate and present for approval, the draft Laws and initiatives and other provisions in fiscal and customs matters; to that end it takes into consideration the determination of the administrative unit responsible for establishing the federal revenues policy, the proposals of the areas that carry out the tax operation, as well as the suggestions of the taxpayers.

Likewise, it becomes appraised of the problems and proposals expressed by the offices and entities of the federal public administration, and by the diverse social groups or sectors, and use them to propose the measures that must be taken with relation to the treatment to taxpayers' sectors and to diverse social groups, in what respects to contributions and the compliance with their fiscal and customs obligations.

In a like manner, it participates in a joint fashion in work groups with the competent administrative units of the Secretariat, of the SAT and of other offices of the Federal Public Administration.

In this order of ideas, the structure of the areas that participate in the design of the Laws in federal fiscal matters is as follows:



TOPIC 1.1

From all the above, we may conclude that the assignment of tax powers for each government order is carried out in conformity with what is established in the Magna Charta. The same defines, among others, the government instances in which the country is organized, its tax fields, the division of powers, the administrative responsibilities of each government instance or sphere, their attributions and limitations, as well as the obligations of the citizens.

Likewise, that based on the Constitution, Supreme Law that establishes and limits the action of the bodies of the Mexican State, the Tax Power is exercised by the Legislative Power at the Federal and State level, under the general principle that the powers that are not expressly granted by the Constitution to the federal servants, are understood as reserved to the States.

Lastly, that the taxation power is competence of the Executive Power, which exercises it through the Secretariat of Treasury and Public Credit, in a management and collection power; also, that it is the one responsible for elaborating the draft Law and initiatives and other provisions in fiscal and customs matters, which will be presented before the Congress of the Union.

III. INTERACTION OF THE EXECUTIVE POWER (SHCP) AND THE LEGISLATIVE POWER: TAX LEGISLATOR

The relationship between the Legislative and Executive powers, must be analyzed under the perspective of the division of powers and the presidential government system established by the Constitution.

However, said analysis cannot be analyzed only from the existing formal relations between the Congress of the Union and the presidential institution in the light of the Constitution, as was done in the section above, but we must take into account other elements that have influenced and that have a bearing on the acts of the incumbents of the aforementioned bodies, even in the very institutional design of the State.

Understanding and explaining the current relations between both powers obliges us, necessarily, to make a revision of its evolutionary process.

In the case of Mexico, the relations subject to the condition of the absolute majority the President's party had in the Houses of the Congress of the Union.

The above situation, in the light of the legislative process, is reflected in the eighties and nineties, where the Executive Power presented 720 Law initiatives, of which 686 were approved.

Being thus the state of affairs, the influence of the Executive Power affecting the sphere of the Legislative Power, was explained due to:

1. The presence of a single party;
2. The leadership of said party resided on the President of the Republic in office and not on the parliamentary groups;
3. The concentration of economic resources in the Federation, especially in the Executive.

With relation to the tax environment, this situation has been a similar one, reason why in what respects to taxes, the relations between these two Powers, makes evident the constant invasion of the field of competence by the Executive towards the Legislative.

Even when the function of the legislators is to develop and approve standards that record and give juridical basis to political initiatives of diverse character, among those the ones of a tax nature, in the case of Mexico said fiscal Law development and creation function has been carried out mainly by the Executive Power.

As was mentioned previously, even though the Legislative Power (through each one of the Houses that make up the Congress), as well as the Executive have the Constitutional power to start Laws, in the case of the fiscal Laws, the corresponding drafts are elaborated by the SHCP, to be presented by the Executive Power before the House of Representatives.

In the process for the elaboration of proposals, it is important the participation of the Tax Administration Service (Servicio de Administración Tributaria - SAT), Decentralized Body of the SHCP, that has a fiscal authority nature, with attributions and powers linked to the determination and collection of the federal contributions and other concepts destined to covering the public expenditure.

TOPIC 1.1

The above, by virtue of that through the interaction between the fiscal authorities, the adequate interpretation and application of the fiscal and customs legislation is achieved, to propose measures for the quick and swift administration of justice in tax matters.

To carry out the presentation of the draft Laws in fiscal and customs matters, study and analysis meetings are organized with the participation of high-level officers of the Administrative Units of the Undersecretary of Revenues and those of the standardizing and operational areas of the SAT, who alternate their knowledge acquired through different sources, which allows them to see with more technicality and reality the changes that must be carried out on said legislation.

As an example of the foregoing, the participation of the Taxpayer Assistance area is important, because by being the initial contact point in any proceeding carried out at the SAT, communications channels are created between the taxpayers and the fiscal authorities, by concentrating the concerns and complications that the different sectors of taxpayers face in the application of the fiscal Laws, same that on occasions, translate into proposals for their modification and guaranteeing in this manner the correct exercise of the rights of said taxpayers, facilitating the voluntary and timely compliance of their fiscal obligations and, above all, provide them with juridical security.

The foregoing is by virtue that when the Congress of the Union annually approves the modifications proposed by the Executive to the fiscal Laws, the Incumbent of the Taxpayer Assistance Administration and its work team, is responsible for providing the guidance and attention of processes in tax matters, as well as disseminating said Laws at the national level, both for the knowledge of and application by the taxpayers and of their different sectors, as for the updating of the operative areas.

Likewise, it is fundamental the intervention of said operative areas of the SAT, in charge of applying the fiscal and customs legislation, because through its supervisory, collections actions and of defense of the fiscal interest, apart from promoting and facilitating voluntary and timely compliance of tax obligations, its action generates the information necessary for the design and evaluation of the tax policy, as well as of the changes that become necessary in said legislation.

In this order of ideas, the Tax Legislation Unit with the collaboration of the Revenues Policy Unit, are in charge of the elaboration of the different fiscal draft Laws initiatives based on diverse sources, among which we find:

- a) The juridical study and analysis of the authorizations and consultations on real and concrete situations is presented by the taxpayers to the SAT, with the purpose of receiving guidance on the way the Law must be complied with, when the same is not clear or, because the wording gives rise to diverse interpretations.

The corresponding resolutions have a double result, they allow the taxpayer to act within the framework of legality, thus avoiding the vices that could be derived from its specific operation, and for the fiscal authority, the same result in a valuable source to present their proposals for modifying the Laws.

- b) The experience of the SAT in the exercise of its powers as a decentralized body of the SHCP, in charge of carrying out the collections and monitoring the taxpayers applying the fiscal and customs legislation;
- c) The study and analysis of the diverse proposals that private organizations present through their Councils, as well as from the diverse taxpayer sectors that compose the productive plant of the country, on their statements and solutions to the fiscal problems that affect them.
- d) Resolutions, both administrative and judicial, issued by the Administrative Fiscal Tribunal and those of the Judiciary Power, by reason that they set the criteria for the due observance and application of the ordinary provisions, when deliberating on the true sense and scope of the legality of the administrative acts. Likewise, in the judiciary ambit, the Supreme Court of Justice of the Nation, as ultimate interpreter of the Constitution, decides on the constitutionality or unconstitutionality of the juridical standards.
- e) The National Treasury Convention, as an extraordinary source and of recent creation, same that will be analyzed later on.

Once the draft Law initiative in fiscal or customs matters is integrated, the same is sent to the Juridical Office of the Federal Executive for its revision and presentation before the House of Representatives.

TOPIC 1.1

In the Mexican case, the true tax legislator has been the Executive Power, who has been in charge of elaborating the tax standards taking into account the circumstances that condition the effective execution of the same, while the Legislative complied with the formal approval procedure established by the Constitution itself.

In effect, the Fundamental Law establishes the obligation of the Executive of presenting the initiative relating to public expenditures and revenues; however, in conformity with the terms established in the Constitution, the time to discuss a matter of fundamentally transcendental for the Mexican State, as are the resources to cover its development needs, was just one month.

This tax legislation creation and approval mechanism in the framework of a Mexico, whose President and majority in the Congress of the la Union belonged to a same party, did not mean major problems, given that, as was previously mentioned, the Law initiatives presented by the Executive were almost all approved, by the Congress of the Union.

At the beginnings of the first plural government of Mexico, whose President rose from a coalition of parties that did not achieve absolute nor relative majority in the respective Houses of the Congress of the Union, the political and sociological scenario, basis for the State's institutional relations, is another one.

Thus, in matter of Law initiatives, the Executive presented 23 during the first year in Office, of which only 10 were approved by the Congress of the Union.

This situation is seen in the following table:

Initiatives presented by the Executive and approved by the different legislatures

	Legislatures	Presented	Approved
Before the Alternation	1982-1985	155	151
	1985-1988	188	186
	1988-1991	71	70
	1991-1994	91	90
	1994-1997	135	133
	1997 - XII/3/98	38	30
After the Alternation	2000 - XI/30/01	42	26
	XII/01/01 – IX 2003	23	10

In this manner, with a divided and highly politicized Congress, the Legislative no longer limits itself to complying with a formal approval procedure, but also actively participates in the design and elaboration of the fiscal Laws suggesting modifications that are introduced to the initiative elaborated by the SHCP, reason for which it assumes the role of tax legislator.

Notwithstanding, due to the limited period for carrying out an analysis with respect to the implications of such modifications, changes made in diverse concepts of the initiative presented by the Executive, afforded the opportunity to a lack of correspondence between the State's expenditures and its revenues to cover them, generating only adjustments between both concepts without this meaning that the fiscal Laws and the resulting budget responded to the real needs of the country.

That is why the Constitution was recently reformed with relation to the period for the presentation, discussion and approval of the package related to revenues and expenditures.

In this order of ideas, the Executive can no longer decide in a discretionary manner the composition of the fiscal provisions, by virtue that the Legislative Power is assuming and exercising its powers, it participates in the design of the same and assumes the role of tax legislator.

In spite of the above, Mexico maintains a political regime that is essentially centralized that has derived in:

- A system that has concentrated the political dynamics and the resources on the Federal Powers.
- Economic dependence of the local governments on the resources managed by the Federation. The current fiscal federalism scheme causes the majority of the Federative Entities to depend for their expenditure on the federal resources, with a similar behavior in the case of the Municipalities.

IV. TRANSFORMATION OF THE SCHEME OF RELATIONS OF THE EXECUTIVE POWER AND THE LEGISLATIVE POWER: NATIONAL TREASURY CONVENTION

As we have shown in the above paragraphs, the alternation in the Executive Federal Power and the absence of absolute majorities inside the Congress of the Union, had transformed the rules of government in Mexico, particularly in the tax ambit.

The foregoing took place, by reason of not having carried out the fiscal reform presented by the Federal Executive in 2001 and 2003, reason for which the State has been weakened; therefore, the necessary changes (opening, deregulation, privatization) instead of being competitiveness factors became mechanisms for greater inequality.

Under the perspective that necessarily a Treasury Reform is required that considers revenue, expenditure and debt, the administrative decentralization and collaboration, the harmonization of the federal, state and municipal treasury systems, and that even when the public treasuries of the Federative Entities and their Municipalities have benefited in the context of the Fiscal Coordination, this system is practically extinguished, reason for which its horizon must be expanded towards an integral coordination of revenues, expenditures and debt between the three government orders.

In a national scenario, characterized by a concentration of the treasury policy decisions, a tax model with limitations to generate fiscal resources required by the national development, as well as the dependence of the local governments on fiscal resources of the federal governments, the need to promote the necessary reforms to invigorate the national treasury system, within the framework of a renewed federalism, has become imminent.

In view of the above, the Federal Executive and the Governors of the Federative Entities, decided to convoke to the First National Treasury Convention (Primera Convención Nacional Hacendaria - CNH), with the incorporation into this process of the Municipalities, as well as of the Federal and State Legislators, with the purpose of promoting consensus on the challenges the country faces in public treasury matters, that is to say, everything related to the public resources: their generation, administration and application.

Intimately linked to these issues, we have the subject of federalism, which is occupied in defining the way to distribute responsibilities and resources among the three government levels: federal, state and municipal; in this way, the CNH involves a republican, democratic and participative gathering, to define the expenditure responsibilities, as of the basic needs in social and infrastructure matters in each one of said levels, and generate the necessary and sufficient resources within a new federalism.

Among the objectives of the CNH, it is convenient to highlight the following:

- To produce and disseminate a diagnosis of the current status of the federal state and municipal public treasury, that serves as the basis to generate a program of reforms with medium and long term vision.
- To achieve a new integral treasury federalism, which must include public revenues, expenditure, debt and patrimony, defining the expenditure responsibilities each government order must assume.
- To review the tax powers and propose who legislates, who administrates and collects, and who receives the fruits of the contributions.
- To review the juridical framework to generate a treasury chapter in the Constitution and a new Treasury Federalism Law, which provide certainty in the relations between the three orders of government.

To achieve these objectives, the Convention counts with an organizational structure designed to respond to the work process. As the one responsible for the logistics part there exists an Executive Directorate. Likewise, it counts with a decision body (Directive Council) chaired by the President of the Republic with the participation of representatives of the government bodies of the three levels, federal, state and municipal; their responsibility is to approve the proposals that will be translated into legislative initiatives.

Said Council supports itself on the methodological guidelines issued by the Technical Coordination, headed by the Secretary of Treasury and Public Credit, as well as other officials of the state and municipal levels. This Coordination is in charge of aiding in the development and harmonization of the final documents elaborated by the seven Analysis and Proposals Desks, submitting the executive proposals to the consideration and decision by the Directive Council.

TOPIC 1.1

The aforementioned Desks develop proposals based on specific topics, among which we have the one related to revenues; at this Desk, the Executive Power participates through the Secretary of Treasury, presenting strategies and actions to reconstitute tax powers to the local governments, Make national collections more efficient improving federal and state administrative collaboration, strengthen municipal finances, as well as to promote tax simplification.

Finally, such Desks appointed the Technical Commissions, which took charge of elaborating preliminary technical studies, which served as the basis to formulate the executive proposals.

The results of the Convention will translate into different types of proposals; on the one hand, those that, through an administrative or coordination process between the government orders, support the better performance of the public federal, state and municipal treasuries and, on the other hand, those that will require to be channeled as legislative initiatives before the Congress of the Union and the Local Legislatures, as may correspond.

Of the contents of the diagnosis, proposals presented and of the results of the whole process encompassed in the four phases of the First National Treasury Convention (Primera Convención Nacional Hacendaria), we may highlight because of its relation to this paper, the conclusion included in the Declaration to the Nation, in the sense that for the strengthening of the treasury federalism we must start a responsible decentralization of the fiscal policy and take advantage of the capacity to generate fiscal resources of the federative entities and of the municipalities, so that through own taxes, approved by their legislatures, the excessive dependence they have with the federal ambit is counteracted and they may be able to recover a greater financial autonomy.

To achieve the above, the recommendation is to explore the possibility of granting to the federative entities, the power to levy with a local tax, the sales and services to final consumption, reducing the general VAT rate, as well as to establish a state tax on certain revenues of the physical persons whose base would be homologated to the federal income tax and from which it would be deductible.

From all of the above, we may conclude that the CNH affects in a favorable manner in the transformation the relation between the Executive Power and the Legislative Power is undergoing, given that from the perspective of the former, the CNH constitutes an extraordinary and privileged source of information that may be taken into account in the elaboration of the different draft fiscal Laws initiatives.

In turn, for the Legislative, the CNH constitutes an adequate forum and process to actively participate in the discussion and design of the fiscal Laws, exercising its Constitutional power, likewise, it will be able to take into account the agreements and proposals derived from said Convention.

That is to say, the constitutional fiscal Laws elaboration process is not altered, it is enriched. The Executive continues maintaining the obligation of presenting the initiative on the matter before the House of Representatives in the terms established by the Constitution itself and, the Legislative, continues with its power to approve it or not.

In this order of ideas, we may conclude that in tax legislation creation matters, the scheme of relations between the Executive and the Legislative Power has been transformed in a greater closeness and cooperation.

V. CONCLUSIONS

The Political Constitution of the United States of Mexico establishes the competences and powers of the Powers of the Union and the bodies of the three levels of government: federal, state and municipal, following the principle that the powers that are not expressly granted by said Supreme Law to the federal servants, are understood as reserved to the States.

In the Mexican juridical-tax system, the powers are translated into the exercise of the State's tax power, which is exercised by the Legislative Power in federal matters, and by the Legislative Powers of the States in local and municipal matters, with the existence of a National Fiscal Coordination System that has caused the majority of the Federative Entities depend for their expenditures on federal resources, with a similar behavior in the case of the Municipalities.

In the case of Mexico, the function of the creation and development of the fiscal Laws has been mainly performed by the Executive Power, as a result of the absolute majority the President's party had in both Houses. The Legislative Power was limited to complying with a formal approval procedure established by the very Constitution.

The incumbent of the Executive is no longer the head of the governing political party and with a divided Congress, without absolute majorities, can no longer decide in a discretionary manner the composition of the fiscal provisions, by virtue that the Legislative is assuming and exercising its powers, participating in the design of the same, assuming the role of Tax legislator.

TOPIC 1.1

The First National Treasury Convention (Primera Convención Nacional Hacendaria - CNH), has represented a fundamental space for the strengthening of our democratic life, which supported on a responsible mature and purposeful dialogue, achieves consensus and agreements to promote competitiveness, economic growth, social justice, balance in regional development, macroeconomic stability and the solidity of public finances of the three orders of government, determining the tax powers with relation to the competence to legislate, collect, administrate or receive resources from each tax, establishing the concurrent and exclusive powers.

From all of the above, we may conclude that the CNH affects in a favorable manner, the transformation of the relation between the Executive Power and the Legislative Power, which is undergoing, considering that the same constitutes an extraordinary and privileged source of information that must be taken into account by the Executive in the elaboration of the different fiscal draft Laws initiatives. Likewise, the CNH constitutes an adequate forum and process for the Legislative to actively participate in the discussion and design of the fiscal Laws, exercising its Constitutional power.

Case study

TOPIC 1.2

**FORMS OF PARTICIPATION OF THE TAX ADMINISTRATION IN
THE DEVELOPMENT OF PROPOSED LAWS. THE PERSPECTIVE
OF THE TAX ADMINISTRATOR**

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1. DE BELASTINGDIENST

The Dutch Tax and Customs Administration (DTCA – in Dutch: *De Belastingdienst*) is an organization that enforces the law and is responsible for the execution of tax legislation and non-tax legislation.

TOPIC 1.2

The core tasks of the DTCA are:

- the levying, collection and control of the taxes imposed by the government, including the detection of tax fraud;
- the control and supervision of the import, export and transit of goods including the detection of customs fraud;
- other tasks carried out for other organizations, e.g. the levying and collection of duties that cannot be regarded as taxes levied by the government (of which the social insurance contributions are the most important example).

The Belastingdienst has defined its permanent task as follows:

The Belastingdienst carries out the legislation and regulations as instructed as effectively and efficiently as possible, and aims in its actions to preserve legal certainty before the law.

Service provision to and respect for the public form an intricate part of its actions.

The Belastingdienst is a law enforcement and government agency but is also an ordinary organization. Like every other business it tries to work as efficiently and effectively as possible. "Efficient" means being careful with time and money. It also means applying resources in order to optimize enforcement of the law. The Belastingdienst is effective if its choice of working methods is in keeping with the behaviour of taxpayers.

An organization that enforces the law in particular must act lawfully, provide legal certainty and guarantee equality before the law. Acting lawfully means the Belastingdienst must work in accordance with the law. Legal certainty means the Belastingdienst must be reliable. The Belastingdienst ensures equality before the law by taking account of the differences between taxpayers. Its policy expresses this through the goal of "unity of policy and enforcement".

The budget legislature makes available financial means for the execution of the core tasks. The means available require constant evaluation in the execution of the core tasks. This evaluation is influenced by the demands of the external environment on the Belastingdienst, and has resulted in the definition of the permanent task, which translates the Business Plan into policy objectives for

the next period. The Business Plan thus reflects the constant evaluation and choices made as a result of its execution, in light of the core tasks and the means available.

The realization of the quality requirements imposed on the Belastingdienst has also been included in the permanent task definition. This involves partly the external quality requirements – the requirements the environment imposes on the Belastingdienst's functioning and performance, and partly the internal quality requirements– the requirements the Belastingdienst imposes on itself as a professional organization in the execution of the tasks imposed.

2. BASIC VALUES

Citizens expect integrity from their government, especially from their law enforcers. The Belastingdienst has formulated basic values to safeguard the integrity of its actions. It indicates what the Belastingdienst stands for, what it wishes to be and what it can be held accountable for. It explains how its staff must behave towards taxpayers.

The Belastingdienst's basic values are credibility, responsibility and scrupulousness.

Every action by a member of the Belastingdienst's staff affects the organization's credibility. And every action influences taxpayers' willingness to comply with their obligations. An organization is credible if it sets a good example, is independent and keeps differing interests strictly separate.

Any organization that carries responsibility must account for what it does. As far as individual taxpayers are concerned the belastingdienst informs them of all its decisions and adjustments and explains the reasons behind them. In the case of supervisory bodies such as the Dutch Court of Audit, it conducts evaluations and compiles reports. Without openness and transparency there can be no accountability. Responsibility also means that staff is answerable for their performance. The Belastingdienst therefore conducts an annual assessment, known as the Fiscal Monitor, which generates a great deal of information on areas that are open for improvement.

TOPIC 1.2

The Belastingdienst always expects its staff to act scrupulously, regardless of the person with whom they are dealing. This means, for example, that they must inform taxpayers clearly, take action quickly, be helpful and keep their agreement and promises. Every action must also be founded on respect for the taxpayer. All taxpayers are assumed to act in good faith unless proven otherwise.

3. BUSINESS PHILOSOPHY

The Belastingdienst works in a very complex environment, as illustrated by the great diversity of legislation and individual situations. A single, uniform working method will not suffice. This is why the Belastingdienst has formulated four pillars that together embody its business philosophy: a service- driven attitude, target group approach, integrated customer management and working in the here and now.

The Belastingdienst is convinced that good service increases the willingness to comply with obligations and prevents errors. For the Belastingdienst, service means answering taxpayers' questions promptly, issuing assessments quickly, awarding refunds, granting licenses, announcing decisions on notices of objection, providing information and being readily accessible. It also means guiding taxpayers through the maze of law and regulations.

To enhance the quality of customer management, the Belastingdienst has opted for a target group approach. If taxpayers can be dealt with in the same manner, the Belastingdienst places them in the same group. It considers how each target group can best be dealt with and what problems and risks it may encounter. There are target groups at various levels. The four main groups are private individuals, businesses, large companies and Customs. At the sectorial level, too, the Belastingdienst has identifies target groups.

Integrated customer management means that all the tax aspects of an event are dealt with at one go. Someone buying a house, for example, can find out the tax consequences from a single contact point in the Belastingdienst.

Finally, the Belastingdienst strives to work in the here and now. Whenever possible, tax events are dealt with the moment they occur and taxes are paid as soon as they become payable.

4. MISSION STATEMENT

On the basis of the permanent task definition, the basic values and the business philosophy, the Belastingdienst has formulated its mission statement or general strategic objective:

To maintain and reinforce taxpayers' preparedness to comply with their legal obligations.

The concept of "compliance" is sometimes used to summarize the mission. In realising this strategic objective, the attention paid to a taxpayer depends on his behaviour under the law: every taxpayer gets the attention that is needed in his specific situation.

In the mission, interaction between the Belastingdienst and the environment takes a central place. It illustrates how the Belastingdienst wishes to execute the tasks it has been given.

5. ORGANIZATION OF THE BELASTINGDIENST 2004

The Directorate General of the Dutch Tax and Customs Administration is part of the Ministry of Finance. The Dutch Tax and Customs Administration is managed by a Management Team of five members chaired by the Director General. The support staffs at the Ministry of Finance consist of 12 self managing teams. The Tax and Customs Administration consists of 4 support centres and 19 executive services.

The support centres are:

- Information and Communication Technology Centre.
- Centre for Professional Development and Communication.
- Process and Product Development Centre.
- Facilities Service Centre.

The executive services are:

- 13 Regional Tax Offices.
- 4 Regional Customs Offices.
- Central Office.
- Fiscal Information and Investigation Service and Economic Investigation Service.

6. TAX POLICY AND LEGISLATION

For a proper understanding, it is important to know that the Belastingdienst is not responsible for the preparation of tax legislation. In the Netherlands this is the responsibility of the State Secretary of Finance. The actual work is done by the Directorate General for Tax and Customs Policy and Legislation. Final decisions are made by the States General.

There is a growing importance of international regulations especially in the areas of customs and indirect taxes. In particular the European Union plays a dominant role in this respect.

For the Belastingdienst the existing legislation is a given reality. The question as to whether the Netherlands needs a new tax law or not is a political question. Decisions about tax bases and rates, deductions and exemptions are political decisions as well.

The States General (the parliament) is responsible for the content of the legislation. The Belastingdienst, as an organization that enforces the law, is responsible for the implementation and execution of the laws. The existing legislation is a given reality.

This does not mean that the Belastingdienst has no influence on the process of preparation of the tax legislation. As part of the implementation task, it plays an important role in advising the State Secretary about the feasibility, enforceability and cost effectiveness of the intended legislation.

7. THE ROLE OF THE DUTCH TAX AND CUSTOMS ADMINISTRATION

The Belastingdienst, as part of the legislative process, has a role in the implementation programme of new legislation. This programme consists of the following stages:

- Assessing the feasibility and enforceability of the legislation.
- Calculating the implementation costs (incidental and structural).
- Implementing the legislation within the organization.
- Enforcing the legislation unambiguously.
- Evaluating the new legislation.

The enactment process of new legislation comprises different roles. The first role is an advisory role in respect of organizational and tax aspects of new legislation: the implementation test. This role includes a number of aspects. Advice is given on the feasibility, the enforceability and the costs of the legislation.

Advise on feasibility concerns tax aspects of a technical nature, the consequences for the organizational structure of the Belastingdienst as well as for the planning of its operations, consequences in respect of computerization, any effect on obligations and their costs for the taxpayer, any effects on non-tax revenue and information for the taxpayer.

Advise on enforceability of new legislation deals with its acceptance by society, recognizability (simplicity and understandability), the scope of regulations, sensitivity to misuse and abuse, the availability of information and possibilities for control and sanctions.

Advise on the costs of implementation refers to the necessity to claim additional budgets if the new legislation results in additional duties or activities of the tax administration. These costs involve additional employees, modification or extension of computer equipment software, cost of information and education material, etc. In calculating these costs, a distinction is made between exceptional (unique) and structural costs.

The second role is the implementation role. The legislation has to be implemented by the tax administration. Tax officers and the public must be informed that the new legislation is coming into force, on which date it is effective, and also in which way the new legislation must be applied and enforced. To this end, new legislation must be incorporated into training and information material. Automation systems have to be built in a timely manner. New forms and procedures have to be prepared.

Another role is the role in the monitoring process: the progress of the legislative process and the subsequent implementation, and actual outcomes/results are monitored in a systematic way. The outcome of an evaluation is, in some circumstances, reason for a recommendation to change the law.

8. RECOGNISABLE, SIMPLE AND UNDERSTANDABLE TAX LAWS

An important aspect of the implementation test is the recognizability, simplicity and understandability of the legislation. The following concrete aspects are tested:

- Appropriately and clearly defined target groups.
- The use of unambiguous and lucid concepts and definitions.
- The use of clear criteria.
- The use of fixed arrangements, valuation rules, fixed rates and amounts.
- Avoidance of superfluous and difficult to apply thresholds and limits, or of complicated computations.
- Maintenance of the number of exceptions to the rules to a minimum.
- Minimization of options from which the taxpayer is allowed to choose.

9. POWER

The responsibility for the enforcement of tax legislation provides the Belastingdienst with great challenges, since politicians and citizens place high demands upon legislative enforcement. To be effective, legislative drafting and legislative enforcement processes have to be aligned. The purposes of this alignment are:

- Coherent and consistent legislation.
- Achievement of intended effects.
- Reduction in implementation time.

To meet the aforementioned challenges, the Belastingdienst introduced the POWER programme (Programme for and Ontology based Working Environment for modeling and use of Regulations and legislation). Within POWER a method is being developed, together with supporting tools for the development and implementation of tax legislation and regulations. The method and tools enable the translation of legislation and regulations into a form that can be used for several purposes such as system development and organizational design. The results of the program consist of several knowledge-based systems for citizens and experts, which support their decision-making processes.

Furthermore tools have been developed to partly automate the modeling process and support the legislation drafters.

10. COMPLIANCE AND ADMINISTRATIVE COSTS

Besides the attention paid to the feasibility and the enforceability of legislation, there is increasing attention given to the administrative expenses that tax regulations entail, in particular for business and industry.

In the Netherlands, a committee was established in the 1990s to make proposals to decrease the administrative expenses for taxpayers (compliance costs) resulting from tax regulations. This committee consisted to a large extent of representatives from business and industry. It made significant proposals in the areas of harmonization of concepts, simplification of procedures, and reuse of information and so on, which led to a substantial alleviation of compliance costs. In addition, a model was developed to assess the effects of new legislation on compliance costs (the standard costs model). This model is used now for substantial changes of legislation.

Besides this standard costs model, there has existed, for many years, a cost calculation model to assess the change in the administrative costs of the Belastingdienst itself as a result of a change in legislation.

11. CRITERIA TO MEET BY THE INTRODUCTION OF NEW LEGISLATION

As mentioned before one of the legislative function's most difficult tasks is to strike the right balance between the detail of legislation and its applicability by taxpayers and administrative departments. Tax legislation must also be sufficiently constant in its general rules to be familiar to all the taxpayers who have to apply it, while, at the same time, being able to evolve to match the economic environment. In addition to this, tax legislation must be made misuse-proof. This is necessary to allow for efficient implementation of legislation, and it also encourages compliant behaviour on the part of taxpayers.

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In short, good legislation is legislation that is capable of being enforced and implemented. To guarantee this, the Dutch Tax and Customs Administration is involved in the process of legislation. In testing new legislation, the Belastingdienst uses a number of standard test criteria. First of all, the enforcement aspects of a tax law are tested. To this end the following criteria can be used:

- Social acceptance.
- Recognizability (simplicity, clarity and comprehensibility).
- Sphere of action.
- Sensitivity to misuse and improper use.
- Ability to verify (inspection possibilities).
- Sanction possibilities.

12. SOCIAL ACCEPTANCE

The more that legislation is in agreement with the notions generally accepted in a society (standards and values), the better the chance that it will be accepted and complied with. If legislation is at variance with the accepted notions of a society, enforcements risks can occur as a result. Social acceptance depends on for example:

- The actions the taxpayer has to perform in order to be eligible for a scheme. If these actions are not in proportion to the goal, the scheme is socially less acceptable.
- The social effects resulting from the regulation must be in reasonable proportion to the aim of the regulation. If for example taxpayers must report on a weekly basis to the Tax Administration in order to be eligible for a scheme, the social acceptance will be low.
- The taxpayer's burden of proof. Imposing an unnecessarily heavy, one-sided burden on taxpayers will meet with a low degree of acceptance.
- The extend to which a regulation is regarded by the taxpayer as justified.
- The legal protection provided to the taxpayer. A regulation without adequate legal protection can reduce the chance of social acceptance.
- Simultaneous implementation of a large number of regulations which have an effect on the same target groups. Particularly the concurrent implementation of regulations resulting in a drastic increase in the (administrative) burden on taxpayers may lead to social resistance.

- The preparation time available for implementation of a regulation. Socially less desirable is the implementation of a complex legislation, all aspects of which can only be published at a late stage, for example, as a result of late decision-making.
- The handling of similar cases. It must be prevented that cases which are similar in common parlance are treated differently.

13. RECOGNIZABILITY OF THE REGULATION (SIMPLICITY, CLARITY AND COMPREHENSIBILITY)

A law or regulation that is not clearly recognizable or cannot be made clearly recognizable for the target group will not (cannot) be complied with. The extent of recognizability can be increased by means of information provision. As well as recognizability, the degree of simplicity, clarity and comprehensibility are important factors for acceptance and compliance.

The concrete elements that increase the recognizability, simplicity, clarity and comprehensibility of a regulation include:

- Good and well-defined target groups.
- The use of unequivocal and clear concepts and definitions.
- The use of clear criteria.
- Avoiding of unnecessary, hard-to-implement 'threshold amounts' and borders or complicated calculations.
- Restricting to a minimum of exceptions to the cardinal rule.
- Avoiding regulations which give different options to the taxpayer.

14. SPHERE OF ACTION OF THE LEGISLATION

Sphere of action refers to the aspects surrounding the coming into force of legislation. This includes the commencing date, the transitory legislation, and the possible retroactive effect of the regulation. It also includes relevant effects on fields that are not covered by the legislation, such as effects of precedence on existing similar cases.

15. SENSITIVITY TO MISUSE AND IMPROPER USE

Every legislative proposal must be tested for sensitivity to misuse and improper use.

The main elements that affect the sensitivity to misuse and improper use are:

- The efforts a taxpayer must make to misuse the legislation. A regulation that makes misuse possible through passivity on the part of the taxpayer is more sensitive to misuse than a regulation that can only be misused through active efforts of the taxpayer.
- The size of the advantage to be gained from misuse. The greater the advantage gained, the greater the extent of misuse.
- The assumed chance that the taxpayer is detected. If the chance of detection is held to be small, the regulation's sensitivity to misuse will grow.
- The possibility to gain an advantage through personal action. The tendency to misuse the regulation will be smaller if advantages can be gained solely through collusion.
- The expected consequences if misuse or improper use is discovered. To prevent misuse, detection must lead to an adequate sanction. Adequate in this context means a sanction that from a social standpoint bear a proper proportion to misuse or improper use.
- Share in the burden of proof. The heavier the taxpayer's burden of proof, the less easier it will be for him to misuse the regulation.

16. VERIFICATION POSSIBILITIES

Proper enforceability requires that the proposed regulation offers sufficient verification possibilities, such as administrative inspections beforehand or afterwards, on-site monitoring and auditing of the books. The availability of information is crucial. Account should also be taken of future inspection possibilities, for instance, as a result of new technological developments.

Points that can play a role in the auditability of legislation include:

- clear and simple testing possibilities;
- clear recognizability and definition of the target group;
- adequate burden of proof for the taxpayer;
- desired extra record keeping by the taxpayer himself or by third parties (e.g. the employer);
- desired information collection at the desired times and in the desired form and frequency;
- desired granting of extra powers to the implementing body or bodies;
- possible working relationships with other organizations;
- verification possibilities by third parties (e.g. accountants or technical specialists);
- sufficient and clear identification of verification tasks and responsibilities of the various implementing bodies.

17. SANCTION POSSIBILITIES

The possibility to impose a sanction for non-compliance increases enforceability. In assessing a sanction / the choice of a sanction, the following factors are of importance:

- the nature and size of the target group, the number of expected sanctions to be applied and the nature of the offences,
- the tie-in with an existing sanction,
- social and political acceptance of the sanction,
- the sanction's practical applicability and implementability,
- the sanction to be applied must be in reasonable proportion to the goal,
- a heavier penalty must not be applied if a lighter penalty suffices.

18. IMPLEMENTATION ASPECTS

For the Tax Administration it is not enough to test the enforcement aspects of new legislation, it is also important to test the implementation aspects. The testing of implementation aspects involves the more process-related features of a regulation. Examples are tax law aspects, the preparation time related to the date of introduction of the law, the consequences for the organization of

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the Tax Administration, the consequences for the business community and the taxpayers. Another important aspect is the necessary communication, both external and internal. Finally the costs of implementation of each change in tax legislation will be computed, both the incidental costs and the structural costs.

19. TAX LAW ASPECTS

The testing of the tax law consequences includes an assessment of the consistency and logic of legislation and law systematic. The test also consists of an assessment of the description of the concepts used. Furthermore, the test must provide an insight into the expected bottlenecks in relation to existing jurisprudence and other legislation. The aforementioned POWER programme serves as a complementary tool in the tax law testing process.

20. COMMENCING DATE

A very important aspect for a successful implementation of new tax legislation is the intended commencing date. It must be assessed whether the regulation can be implemented on the fixed date and at what price. This test must not only look at the implementation with reference to the Tax Administration itself, but also the necessary preparation time for taxpayers, intermediaries and persons subject to deductions from salary.

21. CONSEQUENCES FOR THE TAX ADMINISTRATION

It must be assessed what the consequences will be for the organization, for the working processes of the Tax Administration, for the design of the forms, for the data collection of the organization, for the workload of the administration (extra verification and audit activities, service provision), for the education and training of staff, for the cooperation with other (governmental) bodies and for the automation systems, including the capacity to integrate the changes timely within the automation systems.

22. EFFECTS ON THE BUSINESS COMMUNITY AND TAXPAYERS

It must be assessed what the effects of new legislation will be for the business community and the taxpayers. This often relates to the administrative burden (compliance costs) associated with a proposal and imposed on the business community and the taxpayers. A description is given of the activities or working processes that the business community and the taxpayers will face as a result, or the changes that must be introduced. The point of departure must be to limit the existing compliance costs for the business community and to restrict as much as possible the burden resulting from new legislation.

23. INFORMATION PROVISION

An information campaign will be required to acquaint taxpayers with new legislation. Points for attention will be the target group on which the campaign must focus, how the target group can be reached, the opportune moment to supply the information, the choice for the adequate type of information carrier, etc.

24. ORGANIZATION OF THE WORK

The coordination of the work related to the participation of the Tax Administration in the development of proposed tax laws is done by several teams in the Directorate General of the Tax and Customs Administration. The Law Enforcement Policy Team focuses on the organizational and executive aspects where several Technical Tax Teams concentrate on the technical tax law aspects.

The main part of the work is done by the Centre for Product and Process Design. This Centre is responsible for designing products and processes for the Dutch Tax and Customs Administration. This centre of expertise plays an important role in advising in the area of the implementation and execution of legislation and policy. This is all done in close cooperation with the executive services of the Tax Administration, with Knowledge Groups and with other support centres.

25. CONCLUSION

Taxes that are easy to understand, taxes that are feasible and enforceable, taxes that are cost effective are not only in the interest of the Tax Administration, but also of general interest.

The Tax Administration's interests are that the tax law it has to apply can indeed be applied. This is also of crucial importance to taxpayers and will certainly encourage the compliance of the taxpayers.

In reality, the legislation process is subject to many different interests and points of view. Budgetary issues and the distribution of the tax burden often dominate the discussions in parliament about tax laws, or the wish to stimulate or discourage certain activities. It is therefore extremely important for the Tax Administration to promote their interests as the law making process takes place.

In the Netherlands we do this in close cooperation with the Directorate General for Tax and Customs Policy and Legislation.

Case study

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**FORMS OF PARTICIPATION OF THE TAX ADMINISTRATION
IN THE DEVELOPMENT OF PROPOSED TAX LAWS.
THE PERSPECTIVE OF THE TAX ADMINISTRATOR**

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CONTENTS: I. Executive Summary.- II. Introduction.- III. The Role of the AFIP in Generating Laws.- IV. The Recent Experience in Argentina.- IV.1 The crisis.- IV.2 Impact of the crisis in the tax authority – taxpayer relation.- IV.3 The reaction of the AFIP.- IV.4 Quantitative aspects of the tax administration.- IV.5 The Anti-evasion Plan.- V. Final Considerations.- Annex I. Phase I. Anti-Evasion Plan Status.- Annex II. Phase II Anti-Evasion Plan Status.

I. EXECUTIVE SUMMARY

The tasks developed by the tax administrations, which are difficult and complex in nature, are further complicated when the economic situation of the countries leads to the deterioration of the relation between taxpayers and institutions. The efforts undertaken by the tax administrations that work in an adverse economic environment are different and maybe in some senses, greater than those required by those that are wrapped up in bonanza cycles.

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The document herein describes part of the process experienced by the Federal Administration of Public Revenue (AFIP) of Argentina in a highly critical economic and institutional environment, which lead it to focus efforts in favor of the development of an integrated set of laws, regulations and complementary measures relating to the internal taxation and customs regimes as well as social security resources, in what was called the “Anti-evasion Plan.”

Being convinced that to promote the interaction of personnel of the organization, proposals should be obtained to help to improve the operational conditions of the Administration, in the making of a Plan, the experiences, restrictions as well as internal and external conditions detected by the central and operational units during their daily work, on the subject of the substantive processes of the Administration were compiled and analyzed.

Analysis axis were aligned with the main processes that are developed in the Administration, among which there are processes related to the registry of responsible, collection, tax revenue, enforced collection, examination, foreign trade controls and legislation.

In attention to the nature that the AFIP has, as a control agency, process analysis was of comprehensive nature, therefore the methodology used sought to perform a transversal review thereof, penetrating in particular internal taxation and customs aspects as well as the social security resources area.

The analysis mentioned was performed by fundamentally considering two conceptual lines. On the one hand, the generation of harmonious and combined actions was sought in the different fields of competencies of the AFIP – internal revenue, customs and social security resources – attempting greater synergy among these areas. On the other hand, greater homogenization of normative and juridical criteria, which in some topics – such as those pertaining to enforced collection or sanction regimes, presented certain differences and inconsistencies.

Focusing the vision on the improvement of control processes represents significant changes in regards to the traditional means used to promote proposals to redraft and enact laws, because until this experience the Tax Administration was limited to the preparation of initiatives to adequate a determinate tax and implement or modify some special regime, but the possibility of promoting an integrated package of measures was not conceived.

The change in focus lead to the elaboration of improvement processes on the legislative and regulatory framework where the Administration must develop its task, which in some cases implied to advance in topics on which up to now the organization did not have any inherence on, since it considered that they escaped its specific competencies, such as complementation strategies with other control organizations or proposals for the modification of laws, which in spite of not being directly linked to specific tax aspects, have a subsidiary application on this subject.

The presentation of proposals as part of a one and only and comprehensive plan was essential to obtain its support from the National Congress, since the debate regarding each separate initiative would have further delayed the process and affected its possibilities for approval. Similarly, it would have endangered the timely obtainment of specific benefits if most measures were defined as complementing each other.

The fact that the tax administration departed from the traditional mechanism characterized by promoting law proposals individually, to endeavor their treatment as a homogeneous set of initiatives, had as its main objective to provide greater speed and coherence to the approval process, becoming maybe one of the most outstanding aspects of the methodology used.

The initial results demonstrated in the execution of Phase I of the Anti-evasion Plan and the level of acceptance observed in the technical areas of the Executive Power and at the Parliamentary Labor Commissions of the proposals of legal adaptation included in Phase II, allow to ascertain that the methodology used by the AFIP to design and commission the Anti-evasion Plan is satisfactory and has permitted the organization to take an important quantitative leap in the manner in which existing problems and opportunities are covered in their management context.

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Notwithstanding, the experience described, among the lessons learned, the need to generate a formal and permanent communication means between our organization and the Legislative Power. Therefore, the AFIP is gathering experiences developed in other countries where the Tax Administration has greater participation levels in developing laws and expects to obtain valuable information in this regard throughout the present Conference.

In summary, Argentina's unique experience – as well as the experiences of other countries – will provide clear evidence on how the participation of the tax administration in the process of enacting and drafting legislation results to be not only viable, but advisable as well, resulting in greater levels of efficiency for those states that adopt this means of action.

II. INTRODUCTION

The promotion of voluntary compliance with fiscal obligations and fight evasion, contraband and fraud are two of the fundamental action axis of the tax administration, beyond the distinctive characteristics that these may have in the different countries.

These tasks, which are difficult and complex in nature, are further complicated by the economic situation of the States leads to the deterioration of the relations between taxpayers and institutions. The efforts to be undertaken by the tax administrations that work in an adverse economic context are different and, perhaps in some regards, greater than those required by those that are wrapped up in bonanza cycles.

From the taxpayers' point of view, to have information have facilities and services available that would allow them to better comply with their obligations are indispensable in order to achieve greater levels of acceptance of the taxes and avoid irregularities motivated by disinformation, confusion or in the forgetfulness of their fiscal obligations.

Proportionally, the establishment of a more functional normative framework for the struggle against fiscal evasion, improve the control environment and strengthen the Administration's capacity to detect and sanction non-compliance, drives honest citizens to persevere in their attitude of respect towards the State and induces those that do not comply properly, to improve their fiscal behavior.

The latter has caused many considerations, since in this task many actors converge with different visions, cultures, peculiarities and dynamics.

The Legislative Power first intervenes in the development of laws concerning tax, social security and foreign trade controls subjects, since it is the natural organization for the development of norms. Specialized areas of the Executive Power are added to the same and the tax administrations that have different levels of participation.

In this context and with the purpose of promoting the adoption of measures aligned with their own objectives, tax agencies have developed different strategies to promote the enactment of norms in agreement with their institutional requirements and operational needs.

The document herein describes part of the process experienced by the Federal Administration of Public Revenue (AFIP) of Argentina in a highly critical economic and institutional environment, which lead it to focus efforts in favor of the development of an integrated set of laws, regulations and complementary measures relating to the internal taxation and customs regimes as well as social security resources, in what was called the "Anti-evasion Plan."

The paper begins with a brief description of the participation of the AFIP in the process for the development of laws in the Republic of Argentina and then considers the unique economic and social situation that the country has recently sustained. The purpose is that, as from the greater knowledge of the circumstances that motivated the need to shaken some conditions of the context and internal operation of the Administration, there is better understanding of the reasons that promoted the generation of the methodology used to achieve the successful development of the legal norm proposed and outlined by the tax agency.

III. THE ROLE OF THE AFIP IN GENERATING LAWS

THE ARGENTINEAN TAX ADMINISTRATION

The institutionalization of the Argentinean tax administration dates back to the end of the 18th century, with the creation of the Royal Customs of Buenos Aires. Later, during 1891 the General Administration of Internal Revenue was created and in 1932 the General Directorate of Tax Revenues was created, these organizations were later grouped in 1947 in the General Taxation Directorate. Since colonial times, the tax administration has acquired different forms, names, and incorporating more functions relating to the determination, assessment, and collection of federal lien to finance public expenses.

Its current institutional form was completed in 1997, with the creation of the Federal Administration of Public Revenue (AFIP) responsible of the administration, collection, tax collection and examination of national taxes, through the General Taxation Directorate (DGI) and the control of foreign trade, through the General Customs Directorate (DGA). Around mid-2003 the administration and control of the social securities resources were once again incorporated into same, creating under its direction the General Directorate of Social Security (DGRSS).

This creation process of the AFIP under the concept of “Sole Agency” has the purpose of avoiding the overlapping of structures and improves the efficiency of the procedures as from the search for synergies in the fiscal control of taxpayers, causing the adaptation of the organization with the purpose of achieving a homogeneous culture.

As from 2001, the AFIP was given greater budget autonomy and the obligation of executing general management plans. Said plans constituted a very positive institutional development experience, promoting the participation of the middle management of the organization, since its development is done in agreement with all areas.

This management style promotes the interaction among the different functions, it is very important within the framework of the Anti-evasion Plan, conceived from this institution as a group of legislative and technical measures, which characteristics are described in the following section.

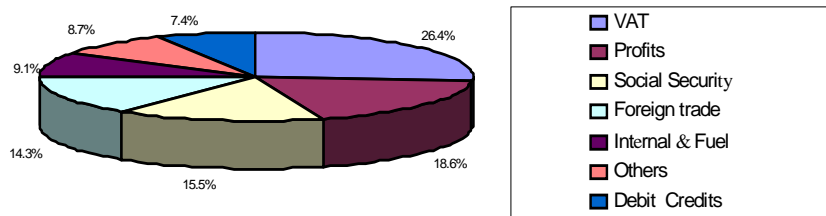
To facilitate the comprehension of the environment of operations of the tax administration in Argentina, Figure 1 presents indicative data on its composition, complexity and magnitude.

Figure 1

Argentina's Tax Administration. Quantitative Data.

Tax Collection for 2003: \$ 79,319 million (approximately US\$ 27,000 million)

Percentile Composition of Tax Revenue Collection



Taxpayer Registry: 610,000 corporations and 4,300,000 individuals.

Export Operations for 2003: 380,000.

Import Operations for 2003: 440,000

Dependent Contributors: 4,800,000.

Independent workers and single taxpayer registered: 3,500,000.

Employers Registered: 840,000.

This universe of transactions is attended with:

2004 Budget: \$ 2,010 million (approximately US\$ 680 million).

26 Taxation Regions and 134 Agencies and Districts.

8 Customs Regions and 56 Customs.

Over 20,000 agents.

(80% dedicated to control activities / 48% university professionals).

The Generation of Laws in the Republic of Argentina

The Argentinean Nation adopted the representative, federal and republican form of government. The assignment of competencies among the national, provincial and municipal levels arises from the generic distribution rule contained in the National Constitution, whereby provinces conserve the entire non-delegated power. In this framework, the development of legislation consists of three clearly differentiated stages:

The Development of Draft Legislation – Initial Stage

The National Congress is the entity that by definition is responsible of initiation draft legislation that arises from parliamentary debate.

Furthermore, the Executive has the power to send to any Chamber where National Legislative Power is structured, draft bills that it deems necessary to execute its government plan.

Similarly, the constitutional reform of 1994 incorporated the creation of draft bills by popular initiative, granting citizens the right to present draft bills before Congress, provided that they do not refer to constitutional reform, international treaties, taxes, budget and penal affairs issues.

Discussion and Sanction - Consultation Stage

While legislative draft bills can originate in different areas, their constitution phase is the exclusive responsibility of the National Congress.

Enactment and publication – Efficiency Stage

The intervention of the Executive constitutes an essential requirement so that the bill that is sanctioned by Congress acquires enforcement and is mandatory, through the enactment and later publication in the Official Bulletin.

On the other hand, the Head of the Ministerial Cabinet, an office introduced by the constitutional reform of 1994, is mainly responsible of promoting the flow of communication between the Executive and Legislative, acting as a liaison between them.

In this action framework imposed by constitutional mandate, The Public Revenue Federal Administration has a maneuver margin assigned to promote initiatives of legislative nature, that will allow it provide thorough compliance with its institutional mission of managing the application, perception and examination of national taxes, social security resources and activities relating to foreign trade controls.

The active collaboration of those responsible of defining economic policies has been promoted from the AFIP, to improve and simplify tax legislation and regulations to facilitate their interpretation and compliance, a formal procedure that institutionalizes said process has not been executed.

In this context, the means that is mostly used to promote initiatives in the legislative field has been the presentation before the Ministry of Economy and Production of draft bills, which will later be sent to Congress, since the Public Revenue Federal Administration is an autarchic entity in the administrative order, in regards to its organization and operation it is under the above mentioned Ministry.

On the other hand, the Legislative Power often requests reports on different issues pertaining to fiscal issues. In specific cases, AFIP technical groups visit the parliamentary commissions that have to deal with tax issues and, when the occasion merits it, the Federal Administrator attends parliamentary sessions to make presentations and/or submit extensive reach initiatives.

IV. THE RECENT EXPERIENCE IN ARGENTINA

The actions of the AFIP regarding the promotion of legislative initiatives, within the framework of the Anti-evasion Plan, which was recently launched, cannot be understood as separate from the particular context that affected our country during past years

Hereinafter a brief summary of the events that conditioned the actions of the AFIP and which justified its actions in search for institutional alternatives to the critical moments that the country had to bear.

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The crisis at the end of 2001

Argentina recently underwent the most serious, profound and extended crisis since its national organization during the second half of the 19th century. Not only did it cover economic aspects, but it also affected and deteriorated the country's international links, the internal social context and the political-institutional situation. Below a synthesis of the impact of this crisis in the Argentinean economy is presented.

Figure 2

Argentina, according to macroeconomic variables:

Around mid-1998, the Argentinean economy began to decline, accruing 42 months of decline.

It suffered a 15% per capita product reduction; 43% decline in investments and its industrial production fell over 20%.

Over one third of the population had employment problems and over 40% was under the poverty line.

It depleted its internal and international credit, unleashing around 2001 a worsening of the financial crisis.

Its public and private debt increased to US\$ 200,000 million, deteriorating the annual public debt /export ratio in 500% and the service of the debt/exports in a magnitude of 50%.

It entered in default with a very important part of its creditors

The situation of the financial system reached its peak in December 2001, generating the immobilization of deposits, creating the so called "*corralito*"¹ as a temporary measure to contain expenses in the face of the bankruptcy of the financial system, and establishing exchange controls for foreign trades. The "*corralito*" propelled the rupture of the public and private payment chain, with the consequent negative impact on the rest of the economic activities and the virtual immobilization of imports and exports.

¹ Corralito: the popular name given to the restriction of withdrawing cash from bank accounts and the prohibition to perform transactions abroad that was established in Argentina during December 2001.

The profound recession and the collapse of the financial system had repercussions on the monetary-exchange system called “convertibility”. The uncertainty on the future induced a run from the peso to the dollar, draining 45% of the reserve stocks of the Central Bank of the Republic of Argentina. This opened the scenario to a serious exchange crisis and to the rupture of basic exchange rules.

The crisis described, which continues today, forced the AFIP double its efforts in strengthening its internal service and control capacities to support a State, which resources were quickly eroding.

Impact of the crisis in the taxpayer - tax authorities relation

This complex process of economic depression and exchange output, had a negative impact on the level of collection of all taxes and encumbrances, which was translated in an annual tax collection fall for 2002 of 7% and the registry of months with negative inter annual variations in the order of 35%.

Furthermore, a series of circumstances conditioned the modus operandi of the AFIP and its operational efficiency. Among these, it is important to point out the depth of a permissive social context with the economic informality, evasion and avoidance, which rooted in the local culture, lead to consider fiscal non-compliance as one more “solution” to the problems of companies and individuals and not as a shared problem, product of the serious economic and financial situation.

Increase in economic informality levels, added to the existence of limitations and historical institutional reasons that caused in other control organizations little comprehension in regards to the need to join efforts to control evasion, made the AFIP's response capacity to be more specific.

Furthermore, it produced the collapse of economic and financial institutions, generalized the loss of legitimacy of public institutions, from which the AFIP could not be exempted, with the consequence risk of fiscal disobedience at times became a credible threat.

This made traditional examination mechanisms insufficient to raise in the population the perception of risk implicit in evasion; this situation was worsened by social consensus, which considered that “in this situation the normal payment of taxes cannot be expected.”

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On the other hand, other factors that began to affect the taxpayer – tax authorities relation during the 90's had to be considered as well and which increased in dimension because of the increased flow in exports because of currency devaluation. During that period new institutions and economic operations product of the great integration of Argentina into world, the increase in foreign invest and the trans-nationalization of national holdings, which generated new operational means in the economy and caused to rethink the manner in which tax examination, customs and social security were understood.

To answer to the new challenges of the emerging evasion and avoidance as a result of globalization, the AFIP had to revise its processes and evaluate the changes in operation of economic groups, tax havens and transfer pricing, to generate the necessary tools and competencies to minimize their adverse effects on public revenue.

The entire environment was influenced not only by the aftermath of the crisis, but by others aspects which throughout time, have conditioned the AFIP management capacity: the existence of a normative and regulatory framework characterized by exceptions, special regimes, gaps and ambiguities made easy the carry out illegal actions and made more tolerable for non-compliant taxpayers the consequences of their behavior; the slow administration of justice at the Tax and Economic Offences Courts resulted in the use of remedies and appeals to further delay the payment of obligations and the existence of multiple control organizations for registry issues as imposed by the federal organization of Argentina², are some of the circumstances that made even more difficult the design of strategies to fight evasion or contraband maneuvers.

The Anti-Evasion Plan (PAE, in Spanish)

Change in the macroeconomic conditions, new international operations and the particular socioeconomic circumstances coming from the crisis, lead the AFIP to accelerate the analysis and design of new management instruments, which implied, among other measures, the introduction of significant changes in different laws, with the purpose of correcting some structural factors that conditioned its actions and to revert in the short and mid-term the fall in collection.

² This problem is worsened by the different and reduced operational capacities of the registries and by the fact that some of them depend in the Ministry of Justice or other areas that attend provincial government issues, which are not directly related to the tax administration, which makes even more difficult the possibility of establishing cooperation mechanisms, unify dispersed information and use it rationally for control purposes.

In this scenario and on the base of a strong political will, interdisciplinary teams were formed with the purpose of proposing measures leading to improve the position of the AFIP in its struggle against non-compliance and tax wrongdoing.

In addition to continuing exercising the most important lines established in the annual Management Plans, the AFIP made the decision to carry-out an in-depth analysis of the processes to propose new actions and solve existing weaknesses and detect improvement opportunities to work on the same.

Being convinced that by promoting the interaction of personnel from the organization to make proposals that will help to improve the operation conditions of the Administration, the compilation and analysis of internal and external experiences, restrictions and conditions detected by central and operational units during their daily work plan, linked to the substantive processes of the institution.

The work of each team was aligned with the most important processes that are developed in the Administration, among which those related to the registry of accountable, tax collection, enforced collection, examination, foreign trade control and legislation.

In attention to the nature of the “one and only agency” that the AFIP has as a control agency process analysis was comprehensive in nature, therefore the methodology used sought to perform a transversal review thereof, penetrating in the particular aspects of the internal taxation, customs and social securities resources area.

The mentioned analysis was performed by fundamentally considering two conceptual lines. On the one hand, the purpose was to generate harmonious and combined relations in the different scopes of competition of the AFIP – taxations, customs and social security resources – endeavoring greater synergy amongst each other. On the other hand, greater homogenization of normative and juridical criteria, which in some topics - such as those relating to fiscal domicile, executive collection or with the enacting regimes – presented certain differences and incongruities.

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Similarly, the vision that specific consultation and professional committees with which the AFIP currently develops its tasks have on taxation and customs' issues and social security resources were taken into consideration, as well as the chambers and associations that submit rebates and proposals. The objective of this case was to develop practical options to effectively implement the reforms, as from the use of information supplied by the private sector and the community that will be affected by the same.

New focus on developing proposed laws

The vision focused on improve control processes represents a significant change from the traditional manner used to promote normative re-drafting proposals, since prior to this experience the Tax Administration was limited to developing initiatives to adapt a determinate tax and implement or modify any special regime, but the possibility of promoting an integrated package of measures was not conceived.

The change of focus lead to the development of projects to improve the legislative and regulations framework where the Administration must develop its tasks, which in some cases meant to advance on topics which until then, the organization had no inherence on since it considered that they escaped from their specific competencies, such as support strategies with other control organizations or slight modification proposals to laws, which in spite of not being directly related to tax aspects have an a subsidiary application in this issue.

As mentioned above, these projects were complemented with the implementation of different initiatives directed to optimize the internal management of the organization.

Identification of problems and improvement opportunities

As from data gathering and evaluation processes, problems and improvement opportunities were identified, on which it was understood that the AFIP had to intervene to produce an effect on the risk perception of those that were tempted to evade and on the limiting structural factors.

Many problems and improvement opportunities detected were related to normative aspects and other with instrumental or operational issues. The main were:

- There are procedures in the Customs Code that have ceased to be useful to avoid evasive maneuvers and increase immeasurably the operation burden of the AFIP, making it difficult to focus their actions on significant cases.
- Increase used of false invoices, with the purpose of generating expense and credit deductions that erode the taxable base.
- Informality persists, manifested in the lack of issuance of vouchers and in its unregistered use, in spite of the increase control activities of the AFIP.
- Increase of default in small taxpayers, facilitated by some inconveniences detected in the simplified regime and in the regime for domestic workers.
- Existence of sophisticated evasion and avoidance maneuvers of international reach, product of new tax planning strategies leading to the reduction of the taxable base.
- High normative and regulatory complexity, as well as the ambiguities in the norms that facilitate avoidance.
- The possibility of responding to legal gaps regarding sanction regimes in the case of non-compliance, sanctions provided for regarding some irregularities specified in the Customs Code, as well as others related to the management of social securities resources, are not aligned to the most rigorous criteria adopted as from the taxation and penal field.
- The convenience of generating a Master Registry of Bodies Corporate to overcome the weak interaction between the AFIP and the registry organizations.
- Decline in the level of banking of individuals.
- Possibility of incorporating technological improvements in verification procedures that permit the improvement of the foreign trade control procedure and achieve better interaction with other security and control organizations.
- The need to regulate different aspects of the new fiscal execution procedure and the legal disposition that authorizes cautionary measures through telematic means.
- Judicial execution of customs debts and guarantees in favor of the Treasury through a different, slow and inefficient procedure.
- Insufficiency of federal courts and specific secretariats to quickly transact and solve a high number of fiscal executions filed annually.

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- Absence of a domicile legally constituted for the enforced collection of customs debts and judicial rates.
- The existence of a normative framework referred to procedures for the treatment of creditors' meetings and bankruptcy, which does not provide sufficient protection to the Treasury's interests.
- The non-existence of a privilege in the Financial Entities law, to avoid fiscal damage produced by the lack of revenue of the funds perceived by the banks, coming from lack of liquidity.

These problems and opportunities detected were grouped and summarized pursuant to the effects that it will produce to overcome the situation with the purpose of ordering the formation of intervention axis, aligned with specific objectives of the management plan, as from which proposals and new projects that consider problematic and complementary must be developed.

The intervention axis that resulted from this process was:

1. Increased risk perception.
2. Control of evasion and avoidance in international operations.
3. Increase of the enactment capacity.
4. Extended scope of control.

Having identified the problems and improvement opportunities defined in the axis if the plan, the formulation of the different initiatives remained.

The annexes contain a list of the measures that form the Anti-Evasion Plan, in its phases I and II, ordered in function of the intervention axis described, jointly with its background and the verified or expected results.

Gradual Implementation

The ample spectrum of issues to deal with and since there is certain uncertainty regarding the level of support that the proposals presented by the AFIP can cause in the legislative environment, it proposed the adoption of a gradual criteria for the implementation of an Anti-Evasion Plan, which was developed in two phases or stages.

This focus will also allow the quick implementation of those initiatives which analysis was more advanced. In this manner, the idea that the AFIP was working in an integrated set of measures can be instilled in the community.

In the same terms of the strategy mentioned, as from the second quarter of 2003 the first phase mainly directed towards the implementation of initiatives in the internal tax scope began to be implemented, mostly of them focused on the struggle against evasion to efficiently respond to the functional scenario of non-compliance.

Aspects related to foreign trade control and social security resources constituted the fundamental nucleus of the second phase, which jointly with other complementary internal taxation measures, which at the date of the present report is in full development.

Execution of Phase I of PAE

Most proposals included in "Phase I", and which were timely required to the Legislative Power, have been approved and few, related to complementary proposals with other control organizations are still being analyzed at Parliamentary Commissions.

Even though the enforcement of measures is recent, some good results may be seen, which permits us to foresee with certain optimism that the entire Plan will receive a positive enactment during the months to come

The first phase of PAE implied in legislative issues the approval during the month of December last year a large amount of significant modifications, were included in the laws set forth herein, and which are summarized as follows:

- Law N° 25.795 – Taxation Procedure Law
 - Joint and several liability of the recipient of non-authorized or false;
 - Incorporation of new presumptions to counteract illegal operations;
 - Specific sanction system for not complying with information requirements on international operations;
 - Qualification of new tax infractions;
 - Extension of the new execution procedure for the collection of guarantees constituted to safeguard fiscal credit;
 - Joint liability for banks that do not comply with seizure orders.

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- Law N° 25.784 – Tax Penal Regime and profit tax
 - Creation of the figure of conspiracy for tax offenses;
 - Foreign trade operations treatment;
 - Specific financial instrument treatment;

- Law N° 25.865 – Simplified Regime for Small Taxpayers
 - New scales, according economic activity and the establishment of a special facilities regime, eventual taxpayer. Benefits for complying taxpayers.

Similarly, in the framework of the plan, the following actions have been executed and promoted through administrative standards:

- Implementation of a taxpayer and customs users risk profile, (currently in commission in all operational areas).
- Provisions of resources to strengthen the assistant attorneys for three Penal Tax Courts, where around 300 cases are being transacted.
- Incorporation of 800 university interns studying careers relating to the AFIP, which were linked to the performance of mass operations for taxation and social security control, as well as the marketing of commodities for exports.
- Promoting the use of banks for commercial transactions, through the return of part of Value Added Tax contained in sales performed with credit and debit cards. This generated, for example, a 55% increase in the use of debit cards during the months of January/2002 and February/2004.
- Sustained increase in the assignment of executory processes and the imposition of bank attachments using Internet.

Development of Phase II

The group of measures that form Phase II of the Anti-Evasion Plan of the AFIP are directed to complement some that have been implemented during the first phase and incorporates new initiatives to strengthen – mainly – foreign trade controls and the collection of social security resources.

Basically it is the case of legislative and normative proposals, which are detailed in Annex II of the present document, where a summary of the problems and improvement opportunities are, and as from which the activities and results expected from each one were designed.

Notwithstanding, with the purpose of illustrating the spirit and objective that guided its elaboration, hereinafter are the most significant initiatives that formed this second Phase.

- Creation of an immediate control of the obligation to bill consumers regime, when executing operations.
- Customs stamping system with bar codes, which identify and trace imported products, increasing risks for importers choosing to place stamps that do not coincide with the corresponding products.
- Promptness in enforced collection procedures of customs debts, following the procedure used in the taxation field.
- Redefinition of the tax base in determinate customs operations.
- Adaptation of the minor and mayor concept, judicial penalization of contraband.
- New control procedures applicable to the operation of courier companies, which will require these companies to adopt electronic data transmission, anticipate information and operators lists.
- Increased satellite follow-up of cargo in transit.
- Determination of debts of social security resources, on a presumed base when the employer does not credit registrations or submits returns.
- Strengthening of the sanction regime applicable to withholding agents and the receipt of social security resources.
- Workers' follow-up, via Internet, the statement of their contributions by the employer, making easier for workers to know the information pertaining to the distribution and destination of the money paid.
- Revision of the domestic worker's regime, to reduce informality and promote compliance.

To date, the technical areas of the executive Power are evaluating these legislative action proposals and soon they will have parliamentary status.

On the other hand, on those actions which execution depends on the AFIP considerable advances have been made. It is important to mention, for example the gradual implementation of the customs stamping system, actions undertaken to incorporate non-intrusive inspection instruments and the development of a computer system that will allow workers to follow-up their social security payments.

Throughout the entire development process of the Anti-Evasion Plan, the AFIP maintained an active position in regards to the search for consensus regarding the group of initiatives to be included as part of the package of measures.

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In this regard, the dialogue with the economic and social sectors involved, through the business chambers gathering the same, and disclosure actions through the present with the purpose of explaining to citizens the reason why it is important to generate new actions.

Once the group of initiatives received the technical approval and the economic feasibility from the Ministry of Economy and Production, public presentation were made in the different fields to inform society-at-large of the new Plan, achieving ample dissemination as well as receiving the express support of different sectors of society.

V. FINAL CONSIDERATIONS

Phase II completed the Anti-Evasion Plan from the comprehensive point of view, which was conceived as a group of measures that must be articulated and be complementary amongst each other. In this manner, the AFIP took an important step seeking to provide responses to concrete inconveniences detected in the tax administration and incorporate improvement sources identified. It is not the case of an isolated initiative, PAE is part of the permanent effort undertaken by the organization to make more efficient its administrative procedures and adjust its operations to the citizen's expectations on the subject of the responsible administration of tax resources.

Initial results obtained from the execution of Phase I and the acceptance level of the proposals and legal adaptations included in Phase II of the PAE observed in the technical areas of the Executive Power and at the Parliamentary Commissions, permit to ascertain that the methodology used by the AFIP to design and commission the Anti-Evasion Plan is satisfactory and the organization was able to take an important quantitative leap in the manner in which problems are covered and the opportunities within its management context.

The presentation of proposals as part of the one and only integrated plan was fundamental to obtain initial support, since the debate surrounding each separate initiative would have substantially delayed the process, endangering the success of the group of measures, conceived as complementary amongst each other.

The logic behind the development of draft bills, rooted in the transversal evaluation of the different processes to be managed by the Administration, identify inconveniences and opportunities, which resulted

to be functional to the needs of the Organization, and begin to overcome the structural conditions and the serious inconveniences resulting from the crisis.

It is important to mention that the level of maturity of the organization turned out to be an important factor to apply this methodology, since it facilitated interdisciplinary work, promoting the exchange of experiences and the possibility of promoting a multi-sector coverage from the legislative, technical and operational point of view.

On the other hand, the permanent attitude in search of consensus with the competent areas of the Executive and legislative Powers and the explanation at all levels of the reasons that caused the measures described, were very important to advance in the commissioning of the Anti-Evasion Plan.

Notwithstanding the experience described, and hoping that institutions continue consolidating, among the lessons learned are the need to generate a formal and permanent communication means between our organization and the Legislative Power.

This system will allow to facilitate the exchange of proposals and the joint development of draft bills that cover aspects that are directly related to the AFIP, as well as other issues of the context that form the control environment, where the same should evolve.

For this purpose, the AFIP is gathering the experiences developed in other countries where the tax administration has greater participation levels in developing legislation and it expects to obtain valuable information in this regard throughout this Conference. Internationally, there are clear examples of the active participation of the fiscal organization in the law development process.

Among the experiences gathered, the experience of the tax administration of New Zealand, the Inland Revenue, which structure has a Division that has main function to advise the New Zealand Government on all aspects pertaining to tax laws, their reforms and social policies which act reciprocally with the fiscal system. Similarly, it develops tax draft bills and looks for the consensus necessary for their approval; it also maintains the network of agreements on double taxation with other countries.

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The Australian case is also a good example of this: the Policy Implementation Forum, defines the scope to propose a New Law or a reform with a tax content, determining the responsibilities of the Tax Office (the tax administration of Australia) in the legislative process and establishing the most appropriate course of action for the tax authorities and the taxpayers affected. Similarly, it intervenes in any administrative problem in regards to the application dates and the most adequate manner to warn taxpayers of changes in the law.

In the cases described, the AFIP finds interesting conceptual development to consider a permanent law development system, without detriment to continue gathering other international practices to improve tax and customs managements as well as the management of social security resources.

This research work is performed convinced – strengthened as from the experience of PAE – of the convenience that the Argentinean tax organization has some form of intervention in the creation of laws that are directly its competence from the start, passing through different legislative processes and up to their effective practice.

The purpose is to achieve more participation from the tax administration in the strategic management of fiscal policy, promoting the adoption of necessary measures for its proper operation, collaborating with other competent organizations. Furthermore, it encourages the possibility of evaluating and adjusting reforms proposed, once the same are implemented.

In summary, the distinctive experience of Argentina – as well as the experience of other countries – provides clear evidence on how the participation of the tax administrations in the development of laws results to be not only viable, but necessary for those states that adopt these means of action.

ANNEX I

Phase I Anti-Evasion Plan Status

1. Increased Risk Perception

Normative Measures

Activity Proposed	Status	Verified or expected impact
<p>Regarding the proliferation of corporations which purpose is, facilitate evasion maneuvers and the generation of false invoices.</p> <p>Develop a legal modifications project which empowers the AFIP to establish:</p> <p>a) The obligation for invoice recipients to inquire AFIP databases, via Internet, to verify that the same correspond to taxpayers qualified to issue the same. On the contrary, the expense or credit may not be deducted.</p> <p>b) Joint and several liability of the recipient of una uthorized or false invoices.</p> <p>c) Specialconditions for individuals requiring their registry in the AFIP (VAT).</p>	<p>Draft bill developed and approved by Law N° 25.795</p> <p>Draft bill developed and approved by Law N° 25.795 Rules are being developed.</p> <p>Draft bill developed and approved by General Resolution N° 1575/03.</p>	<p>Significant increase in the amount of inquiries made to the "Verification of the validity of invoices issued" page.</p> <p>In the event of detecting that the vouchers are not properly authorized, the AFIP can challenge deductions made and credits taken by those responsible.</p> <p>Increase in the amounts challenged before and after the implementation of the measure (approximately \$300 million in receipts for sales operations)</p> <p>On the total amount of taxpayers examined, who generate tax credits for the Oct '03 – Mar '04 (18,055 issued) 6-month term, only 38% was granted in the same conditions prior to the implementation of the new regime. 36% were guaranteed with a bank payment obligation and 26% was granted with the withholding obligations of 100% of the tax contained (M invoices).</p> <p>Printing requests for these vouchers presented by taxpayers registered during the first quarter that the provision was in force, declined 50% when compared to those registered during the previous 6-month term.</p>
<p>Redrafting of partial aspects of the Tax Procedure Law to increase the risk perception (offense qualification, fiscal credit safeguard in executory processes, etc.)</p>	<p>Draft bill developed and approved by Law N° 25.795</p>	<p>Improvement of results coming from enforced collection and examination.</p>
<p>Creation of the conspiracy figure for tax offenses</p>	<p>Draft bill developed and approved by Law N° 25.784.</p>	<p>A complaint was filed by the AFIP, and a Federal Court ordered the detention of 10 (ten) individuals for conspiracy.</p> <p>New cases will soon be brought to justice; these cases involve conspiracy in approximately 800 companies.</p>

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Instrumental or Operational Measures

Activity Proposed	Status	Verified or Expected Impact
<p>Optimize control actions pursuant to the taxpayers and customs users risk profile.</p> <p>a) Implement a cadastre of risk profile and taxpayers and customs users' non-compliance regarding their tax obligations (Risk Profile System – SIPER).</p> <p>b) Facilitate access to the community to the SIPER to show the fiscal risk of the taxpayers and attempt to improve their behavior.</p>	<p>Being tested at all Regional Directorates the use of the system at the research areas.</p>	<p>An important increase in the risk perception and voluntary compliance will take place.</p>
<p>Execution of mass control on the issuance of invoices, operations registry, road controls, fiscal 2002.</p> <p>controllers readers, unregistered employment, etc.</p> <p>Incorporate 800 students advanced or recently graduated professionals under internship programs and for a short period.</p>	<p>794 interns were hired and assigned to control tasks.</p>	<p>During 2003 approximately 410,000 actions of this nature were performed, vis-à-vis 380,000 registered during</p> <p>During the first quarter of 2004, 121,000 preventive external examinations have been performed, which represents a 12% increase when compared to those executed during the period last year.</p>

2. Evasion and avoidance control in international operations

Normative Measures

Activity Proposed	Status	Verified or expected impact
<p>Develop a project to incorporate in the Tax Procedures Law a specific sanctioning system for non-compliance with the information regime on transfer pricing and encumbrance of international operations.</p>	<p>Draft bill developed and approved by Law N° 25.795.</p>	<p>As a consequence of the normative imposed, the amounts of returns filed increased, for international operations among independent individuals 18%, as well as annual transfer pricing 14%.</p>
<p>Modify profit tax norms regarding the treatment of goods exports and imports through offshore traders, to avoid a gap in the national tax base caused by the effect of operations triangulation.</p>	<p>Draft bill developed and approved by Law N° 25.784. Regulatory decree draft bill developed.</p>	<p>Exploitation of the information and research of economic sectors with presumed evasion.</p> <p>Results of the examination:</p> <ul style="list-style-type: none"> - Cereal and Oils Sector: 14 companies for \$ 25 million - Automotive Sector: 8 operations for \$ 430 million - Tobacco Sector: 1 company for \$ 9 million.
<p>Rule specific treatments on the use of determinate instruments that generate evasion or avoidance covering indebtedness without the respective taxation.</p>	<p>Draft bill developed and approved by Law N° 25.784. The draft Regulatory Decree is being agreed with the National Taxes Directorate</p>	<p>Decline in the execution risk of fraudulent maneuvers.</p>

Instrumental or operational measures

Proposed Activity	Status	Verified or expected impact
Prepare a normative draft fill to delegate in the AFIP the regulation of information and mutual cooperation procedures signed with foreign Tax Administrations, as provided for in Agreements to avoid double taxation.	Draft bill developed and approved by Resolution N° 336/03 (MeyP).	International agreements for the exchange of tax information: during May the first, agreement was signed with Spain.
In-depth analysis of the exploitation of information regimes implemented recently to detect fictitious operations of taxation and customs nature originated by foreign corporations registered at AFIP.	R.G. N° 1375: established registration R. G. N° 1463: approves "Foreign Representatives" R.G. N° 1508: "Intervening third parties". Information exploitation system is being tested (e-tax System).	As from the analysis of the data from these information regimes, controls on these subjects will improve.

3. Increased enactment capacity

Normative Measures

Proposed Activity	Status	Verified or expected impact
<p>Develop a draft bill for the Modification of the Tax Procedures Law to promote the incorporation of presumptions that allow counteracting illegal operations. The following are for example purposes:</p> <p>a) In the case of personnel that are not being declared, the amount involved means sales omitted in the Value Added and taxable profit in the profits taxes.</p> <p>b) Information obtained from satellite image is used to indicate production.</p> <p>In application to authorize the recovery of the VAT for exports.</p> <p>c) Information contained in the databases of the Tax Authority on false invoices, which inquiry is mandatory for those responsible, it is sufficient to challenge their deduction as expense and tax credit.</p>	<p>Draft bill developed and approved by Law N° 25.795</p> <p>Regulation stage</p>	<p>Improvement of the risk and voluntary compliance perception. Increase of examination adjustments.</p> <p>Satellite control of 50% of the surface planted with wheat:</p> <ul style="list-style-type: none"> - 3 million hectares registered in the province of Buenos Aires, Santa Fe, Entre Ríos and La Pampa, relating to 20,000 taxpayers. - Operation "Soy 2004": - Total trucks registered: 102,000 with 3.3 million tons of soy. - Amount of gathering places mapped: 143. <p>In those VAT recovery proceedings where exporters comply with all requirements of the AFIP, recovery takes place within 20 days.</p> <p>The extension of the remaining operations will allow the generalization of the challenge of documents not inquired at the databases of the AFIP.</p>

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Instrumental or operational measures

Proposed Activity	Status	Verified or expected impact
Reinforce tax courts and tax execution courts.		
a) Provide resources that allow the commissioning of new courts.	Complied	Implement three new Tax Courts. As from its commissioning (09/10/2003), they transact three hundred (300) penal causes, registering (as relevant data) a case that brought down an organization dedicated to sell false invoices, where five (5) people accused of conspiracy are detained.
b) Creation of Body of Tax Accounting Experts	Implement during 2004.	Optimization of management of penal tax cases as from support granted to courts.

4. Extension of scope of control

Normative Measures

Proposed Activity	Status	Verified or expected impact
Redraft the one tax regime with the purpose of eliminating the responsible non-registered in the Value Added Tax and establish different scales according to economic activity (trade - services).	Draft bill developed and approved by Law N° 25.865. Re-registry and execution of payment facilities plan.	Partial results from the facilities regime: -Amount of returns submitted: 280,000 -Registration results: -Amount of taxpayers registered: 1,170,000

Instrumental or operational measures

Proposed Activity	Status	Verified or expected impact
Recover customs control delegated to security forces at customs border posts.	Fist state concluded with the incorporation of the La Paz-Pozo Hondo Mission; Fetheringham & Corpus; El Dorado and Monte Caseros.	Reinforce of control on illegal activities mainly linked to the so-called "anti-contraband."

ANNEX II

Phase II Anti-Evasion Plan Status

1. Increased risk perception.

Normative Measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Enforced collection of customs tax credits must be done pursuant to the procedure provided for in art. 605 of the Civil and Commercial Procedural Code. There appear the ample powers granted to Tax Agents by art. 92 of Law N° 11.683 (t.o. in 1998) causing delays that reduce the effectiveness of the collection procedures.	Enforced collection procedures are faster and simplified procedures for the debt of customs origin. Law that modifies the Customs Code.	Application of uniform criteria for enforced collection, using the procedure in force for tax and social security resources issues, in the customs' debt collection process.
Certain aspects subject operations control to the competence of the Administration of Public Revenue.	Extension to the DGA of the power to perform disqualifications with fiscal purposes on the measurement and control of international trade operations. Law that modifies the Customs Code.	Reduction in the risk of fraud, product of the full competence of the AFIP on all aspects that they perform to operations control.
The norms in force, do not explicitly consider – among the attributes of verification of the AFIP- the power to exercise direct control on operations involving the sale of goods and services.	Creation of an immediate control regime of the obligation to issue an invoice to consumers. Modification of the Tax Procedures Law	Improvement of control on invoicing. Timely and effective sanction of violations detected.
Commercial operations outside legal circuits are performed – generally characterized by the absence of or false documents – with the purpose of evading taxes.	Attachment and confiscation of goods that are not duly documented. Modification of the Tax Procedures Law	Increase in the risk to operate in the illegal economy. Decline in asphalt piracy, decline in the amount of goods stolen and ensuing marginal marketing chains.
Some procedural dispositions related to the operation of the Tax Court are incomplete or ambiguous. On the other hand, the process' timetable is not clearly established.	Perfecting the contentious procedure before the Tax Court. Modification of the Tax Procedures Law	Administrative process before the Tax Court, agile and precise.
Some receivers in bankruptcy and creditors procedures do not comply on time and form the duty of requiring from the AFIP the debt, making the tax authorities to verify the debt, but not on time, with the consequent payment of court fees.	Protection of Fiscal credit in bankruptcy and creditors procedures. Modification of the Tax Procedures Law and the Creditors' and Bankruptcy Law	Unequivocal juridical interpretation of these aspects linked to the protection of the interests of tax authorities in bankruptcy and Effective application of joint and several liability for receivers, attempting better and timely compliance with their obligations.

TOPIC 1.2

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Different regimes exist to determine the obligations pertaining to the payment of contributions for domestic service workers. Similarly, collection is done by applying different criterion.	Comprehensive adaptation of the domestic service workers regime. New Law and decree	Reduction of informality in the employment of domestic service personnel.
There are not legal tools to determine work relation in situations where evasion and non-registration is evident.	Debt assessment on a presumed base, unless proven otherwise, when the employer does not credit registries in past returns, using differen New Law	Application of a debt assessment process based on the possibility of estimating the existence of labor relation, day on which the worker stopped working and indications. base, under certain suppositions, i.e.: - Performance of works or services which necessarily require labor; - Usual mean salaries for the activity; - Estimate of the incidence of labor in the invoicing billed.
In some cases taxpayers use a "work cooperative" to contract labor without having to make social security payments.	Struggle against the emerging fraud of using juridical figures to evade social security resources. New Law	Decline in the number of cases using these methods, created to commit fraud. Increase income associated to social security resources.

Instrumental or operational measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Dependents do not have the possibility of easily knowing the income of their contributions by employees.	Making easier through Internet, controls performed by workers to make sure that their contributions are effectively submitted and made by the employer.	Greater control of the income from contribution held as from the intervention of the workers.

2. Control of evasion and avoidance in international operations

Normative Measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Foreign trade operators can rectify customs returns even after the determination of the selectiveness channel.	Limitation of the moment until the customs declaration can be rectified. Modification of the Customs Code Law	Impossible to modify the customs declaration when the operator already knows the selection that has been assigned to it, con la consequent protection of income of the tax authority.
In some temporary imports, goods are nationalized at the current value, when the maximum legal term in force expires, producing a decline in the calculation of the corresponding taxes. Equally, for the determination of the taxable base of export goods, does not consider the cost of transportation means, currently there is no provision in the Customs Code, for pipelines, gas-ducts, power grids, etc.	Incorporation of measures leading to redefine the taxable base in determinate customs operations. Modification of the Customs Code Law	Application of the value that originates when entering into the country, for the nationalization of goods entered as temporary imports (once the legal term has expired),protecting the interests of the tax authorities. Cost of transport through ducts incorporate as a taxable issue in foreign trade operations, increasing tax revenue.

Instrumental or operational measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Lack of homogeneous criteria for the establishment and update of reference pricing. Product of the currency devaluation and the implementation of measures, such as making mandatory the assessment of foreign currency and the imposition of withholdings ahs increased the over-billing risk of exported goods.	Implementation of new mechanisms for the establishment of price ranges in the Maria Computer System.	Use of objective mechanisms for the establishment of prices or their maximum limits, in export operations, foreseeing their over-billing.
There is not advanced information sent to Customs on deliveries sent to courier companies.	New procedure controls applicable to these operations.	Electronic data transmission, advanced information and operator lists installed at all courier companies with access from the AFIP.

TOPIC 1.2

3. Increased enactment capacity.

Normative Measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
At courts penal cases from customs accumulate, many of which are not significant to the tax authorities. Since judicial process takes long periods, resources that may be better used are removed and this excessively delays the solution of the cases.	Adapt the figure of contraband, lesser or greater penalization of contraband punishable by law. Modification of the Law Customs Code	Quick transaction of judicial causes, in function of the inherent tax detriment, is important for the tax authorities. Penal scales and monetary sanctions provided for customs offenses, compared to the criteria of Penal Tax Laws.
Repeatedly, defective compliance with formal obligation imposed by the Tax Procedures Law has been detected. This prevents effective control from being exercised by the tax authorities, when having to examine tax authorities .	Sanction defective compliance with formal duties. Modification of the Tax Procedures Law	Reduction in the number of cases where defective compliance with formal obligations is performed (i.e. gaps or incomplete information backup, illegible data, etc.).
There are no figures in the social security environment; they exist in the taxation field, which will allow sanctioning administratively and criminally, withholding and reception agents that do not properly comply with their obligation to act as such.	Strengthen of the sanctioning regime applicable to social security withholding and reception agents. New Law	Homogenization of sanction regimes applicable to withholding and/or reception agents that do not comply with the provisions foreseen.

4. Extended scope of control.

Normative Measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Unfair commercial practices, associated to the falsification of goods, generate multiple negative economic effects.	Prohibition of foreign trade operations that involve false goods. Law complementary to the Customs Code. Regulatory Decree.	Minimize the marketing of imported goods with counterfeit brands.
Proceedings to place goods under Customs guardianship are cumbersome.	Facilitate the disposition or sale of goods seized by Customs. Modification Law 25.603, complementary to the Customs Code	<ul style="list-style-type: none"> - Fast marketing of seized goods and extended to tall goods susceptible of being marketed, including luxury articles. - Decline in the problems coming from the custody of the goods seized. - Consequent increase of public income.

Normative Measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
Default situations have been verified product of improper handling of the "fiscal domicile" by non-compliant taxpayers.	Create the "electronic fiscal domicile." Modification of the Tax Procedures Law and the Customs Code	AFIP will have a new efficient tool to perform its functions.
The constitution, modification, substitution and cancellation of guarantees in favor of the AFIP require the presentation of documents supported by paper. This operation facilitates falsification maneuvers further complicating controls.	Constitution of guarantees through computer means. Modification of the Tax Procedures Law and the Customs Code	Substantive decline in the risk of counterfeit maneuvers coming from the use paper back up.
Notwithstanding the comprehensive reform of the fiscal domicile institute set forth in Decree N° 1334/98, currently an important gap remains regarding non-compliance relating to this issue which obviously prevents the powers of the AFIP.	Use domicile for tax purposes, information informed by third parties. Modification of the Tax Procedures Law	Improvement in the efficiency of processes that need true communication with taxpayers.
To date, the pertinent Institute is regulating this issue by means of a general resolution. It is important that it be raised to a legislative level.	Assign legal rank to "related inquiries." Modification of the Tax Procedures Law	Greater transparency regarding the use of the "related inquiry" issue.
When the Central Bank of the Republic of Argentina establishes the suspension of a bank entity, collections and credits pending accreditation are immobilized and in the event that the bank entity is liquidated or does not have funds, the AFIP cannot recover these credits.	Protect funds collections and not credited by financial or commercial entities. Modification of the financial Entities and Creditor's and Bankruptcy Laws	Enforcement of the legal special framework for the protection of funds belonging to the Tax Authorities that are not liquidated by third parties, caused by insolvency situations or lack of liquidity.
The process that determines the debt of the social security resources is too long, and currently they are not justified.	Reduction of procedural terms in social security issues. New Law	Shorter procedural terms, improving the opportunity to execute social security debts.
Exercise actions on fictitious corporations created with the sole purpose of facilitating evasion maneuvers, which apparent operate within a legal framework.	Commission a Master National Registry for bodies corporate that will use <i>CUIT</i> for its identification. New Law	Effective coordination of control functions inherent to registration organizations for bodies corporate and the AFIP, with the resulting decline in the risk of evasive or fraudulent practices.

TOPIC 1.2

Instrumental or operational measures

Problems or opportunities detected	Proposed Activity	Verified or expected impact
The possibility of greater interaction between the AFIP and other public organizations in performing activities that can strengthen the State's to fight evasion, contraband and unregistered employment.	Financing by the AFIP of cooperation programs agreed by the provincial Tax Administrations. Regulatory Decree	The AFIP can direct its own funds for financing and/or for the implementation of programs, projects, tasks and activities related to the AFIP and/or with the registry of juridical goods or bodies corporate where state entities participate.
Currently foreign trade controls are delegated in different security forces, with insufficient interaction amongst them.	Creation of the Master Contraband Control System for the prevention and repression of customs offenses and violations, with the participation of the Customs Police and other security forces. Decree	Effective decline in different forms of tax offenses, which generate "inter-modalities" in the scope and reach.
Currently the stamping mechanism used for the identification of imported products can be easily forged. It does not identify the good, it's generic.	Implementation of a stamping system with a bar code and by product, which allows goods imported to be traced. AFIP Resolution	Improved collection and control procedures. Consequent increase of the risk perception by importers, when considering the "convenience" of committing illegal actions (use of stamps that do not coincide with the products).
There are activities that have evasion indexes and which is necessary to assure the entry of related social security resources.	Increase the universe of social security withholding agents. AFIP Resolution	Advance and effective entrance of social security resources by taxpayers that today evade the same.
Technological advances and in communications they mandate the implementation of new practices to make formal the issuance and safeguarding vouchers that cover commercial transactions.	Implement electronic invoice. AFIP Resolution	Regulatory procedures to admit the issuance and safekeeping vouchers through the telematic means implemented. Procedures are faster for taxpayers examined. Safeguard of the fiscal interest in operations of this nature.
Ports do not have the adequate technology to control containers.	Incorporation of non-intrusive technology to control containers – scanners mobile-. AFIP Resolution	Examination process of customs strengthened through non-intrusive container control mechanisms.
Throughout 2003, the Electronic Security Device was adjusted; it allows to permanently monitoring containers for transfer operations in the city.	Increase of the satellite tracing system in transit. AFIP Resolution	Increased fiscal controls and goods' safety as well as the safety of transportation means during transit operations.

Case Study

TOPIC 1.3

IMPLEMENTATION AND EVALUATION OF TAX LAWS

Claudino Pita

Director of Research and International Cooperation
Federal Administration of Public Revenues - AFIP
(Argentina)

*CONTENTS: 1. Forms of Evaluation of the Legislation by the TA.-
2. Ex-post Evaluation for Implementation.- 2.1 Type of legal
modification.- 2.2 Aspects to be considered.- 2.3 Adaptation of the
organization.- 3. Analysis of Impact by Type of Legal Modification.-
4. Methodology of Ex-post Evaluation.- 4.1 Who begins the project
and when?.- 4.2 How is it done?.- 5. Implementation of the New
Legislation at AFIP.- 6. Ex-ante Evaluation.- 7. Conclusions.-*

(Note of the Publisher) We incorporate to this publication the reproduction of the Power Point presented by Mr. Claudino Pita, Director of Research and International Cooperation – AFIP Argentina.

1. Forms of evaluation of the legislation by the TA

Two forms or times for evaluating the legislation by the TA may be differentiated:



- **“Ex-post”**: determine the needs and actions to adapt the organization for the effective implementation of the new legislation
- **“Ex-ante”**: determine the needs to adapt the legislation in order to complement and sustain the effective performance of the TA

2. Ex-post evaluation for implementation

2.1 Type of legal modification

- **Taxes**
 - **New tax**
 - **Modification of rates**
 - **Modification of structure**
Classification of rates, tax base or event, deductions, taxpayers, etc.
- **Modification of treasury-taxpayer relationship**
Appeals, sanctions, powers of TA, etc.
- **Internal structure**
Organizational structure, administrative career path, budget, etc.
- **Laws with tax implication**
Creation of corporations and financial organizations, order of privilege of creditors in dissolution agreements and bankruptcy procedures, etc.

2. Ex-post evaluation for implementation

2.2 Aspects to be considered

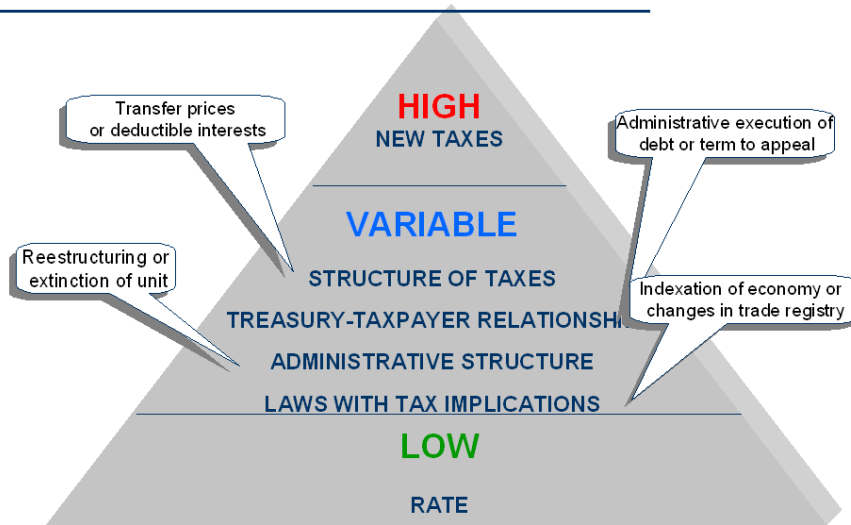
- **Legal Complementation**
Complementary and interpretative administrative acts
- **Dissemination and information**
Public information media and AT portal
- **Adaptation of the organization**
Effectiveness, single agency
- **Costs of adaptation**
Efficiency, financial resources
- **Costs of compliance**
Indirect tax burden for the taxpayers
- **Effects on collection**

2. Ex-post evaluation for implementation

2.3 Adaptation of the organization

- **The strategy**
Plans and programs
- **The organizational structure**
New specialized units, decentralization
- **Human resources**
Training, updating, incorporation of officials
- **Technological resources**
Computerized systems, programs and applications, acquisition of equipment
- **Processes and procedures**
Integration or disaggregation of phases

3. Analysis of impact by type of legal modification



4. Methodology of ex-post evaluation

4.1 Who begins the process and when?

Coordinating specialized central unit, with the participation of normative and operational entities involved

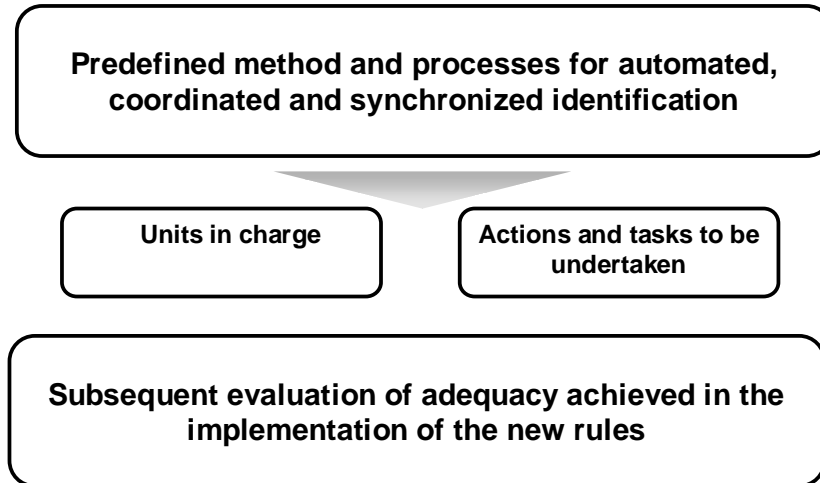
Need for timely forecast and projection of adaptation needs

EP Initiative
in development of
the bill

LP Initiative in the
parliamentary
discussion phase
of the bill

4. Methodology of ex-post evaluation

4.2 How is it done?



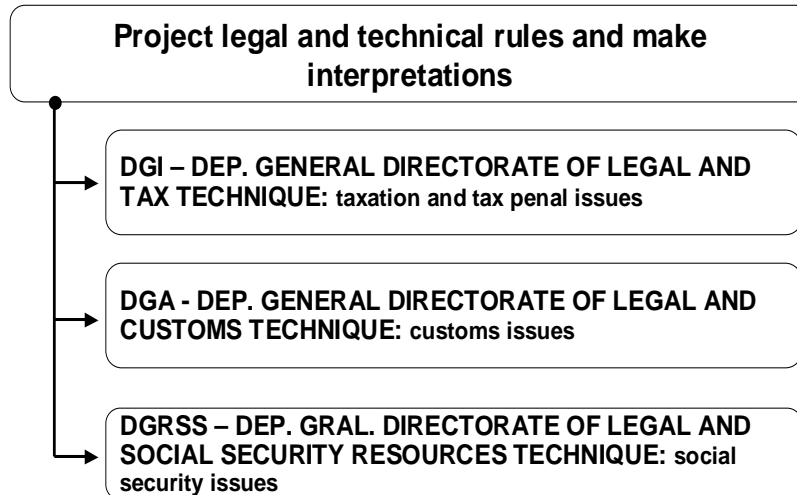
5. Implementation of the new legislation at AFIP

→ Powers of the Federal Administrator of Public Revenues: National Decree 618/97 and its modifications

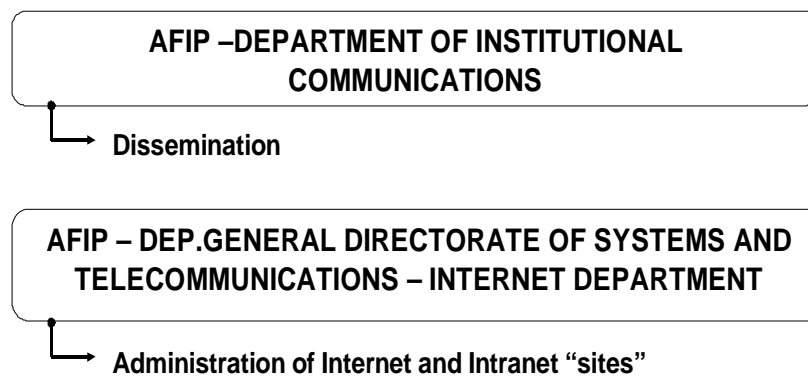
- Organize and regulate the internal operation of AFIP in its structural, functional and staff management aspects and modify the organic-functional structure at lower levels than those approved by the EB
- Issue obligatory general rules for officials in charge and third parties on the matters authorized by the laws
- Interpret in general the legal rules that provide for, or govern the collection of taxes under AFIP's responsibility, as obligatory general rules if they were not appealed

5. Implementation of the new legislation at AFIP

→ **Legal complementation:** administrative, complementary and interpretative acts



→ **Dissemination and information:** public information media and TA portal



5. Implementation of the new legislation at AFIP

→ **Evaluation of costs of adaptation:** efficiency, financial resources

AFIP – DEP. GENERAL DIRECTORATE OF PLANNING AND ADMINISTRATION

→ Administration of financial and material resources

AFIP – DEP. GENERAL DIRECTORATE OF PLANNING AND ADMINISTRATION – DEPARTMENT OF COORDINATION AND PROCEDURES

→ Allocation of economic resources and formulation of recommendations for optimization of expenditures

→ **Evaluation of the impact on the organization:** strategy - effectiveness, plans and programs-

AFIP – DEPUTY GENERAL DIRECTORATE OF PLANNING AND ADMINISTRATION

→ Involvement in planning, management, administration and organizational functions

5. Implementation of new legislation at AFIP

→ **Evaluation of the impact on the organization: organizational structure** -new specialized units, decentralization-

AFIP – DEPUTY GENERAL DIRECTORATE OF PLANNING AND ADMINISTRATION – DEPARTMENT OF COORDINATION AND PROCEDURES

→ Involvement in projects dealing with organizational design

→ **Evaluation of the impact on the organization: human resources** –training, updating, incorporation of new officials -

AFIP – DEP.GEN. DIRECTORATE OF HUMAN RESOURCES

- Human resource programs and actions
- Design training strategies

→ **Evaluation of impact on the organization: technological resources** –databases, information systems, programs and applications, equipment acquisition-

AFIP – DEP. GEN. DIR. SYSTEMS & TELECOMMUNICATIONS

- Design and develop computerized systems
- Define and administer base software and hardware and telecommunications

5. Implementation of new legislation at AFIP

→ **Evaluation of impact on the organization: processes and procedures** -redesign of processes and procedures, integration or disaggregation of phases-

Propose and evaluate plans and processes related to:

AFIP – DEP. GEN. DIR. OF COLLECTION

→ **Collection of internal taxes and customs duties**

AFIP – DEP. GEN. DIR. OF EXAMINATION

→ **Examination of internal taxes and customs duties**

DGRSS – DEP.GEN. DIR. OF COLLECTION AND EXAMINATION OF SOCIAL SECURITY RESOURCES

→ **Collection, examination and computerized procedures of social security resources.**

→ **Evaluation of compliance costs:** indirect tax burden for taxpayers

AFIP – DEP.GEN. DIR. OF COLLECTION

→ **Rules for the application of taxes and services to the taxpayers**

→ **Evaluation of effects on collection**

AFIP – DEP. GEN. DIR. OF PLANNING AND ADMINISTRATION – DIRECTORATE OF STUDIES

→ **Estimate annual performance of taxes and perform ex-post analysis**

6. Ex-ante evaluation

→ Adaptation to the environment

- Follow-up and identification of variations in the environment
- Test of adaptation of the rules and organization to the new circumstances
- Determination of normative and administrative changes required for adaptation to the environment

→ Application of the method used for the formulation of the Anti-evasion Plan

- Know and analyze the environment
- Based on accumulated institutional experience seek corporate solutions through:

Organization of interdisciplinary teams

Transversal review of the processes and structural aspects of the organization

- Participation in elaboration of proposals and search for internal and external consensus
- Promote normative changes that may complement and sustain the organization's adaptation to the environment

7. Conclusions

It would seem convenient that the evaluation task, for the implementation of the new legislation (“ex- post”) as well as for the adaptation of the legislation (“ex- ante”), be incorporated as a permanent action and that there be available for said purpose:

- A central coordinating unit
- A method and predefined processes

Case study

TOPIC 1.3

IMPLEMENTATION AND EVALUATION OF TAX LAWS

Ricardo José de Souza Pinheiro
Deputy Secretary
Secretariat of Federal Revenues - SRF
(Brazil)

CONTENTS: Introduction.- 1. The Brazilian Legal Organization and the Implementation of Tax Legislation.- 2. The SRF and the Brazilian Tax Policy: Formulation, Implementation and Evaluation.- 2.1 Organizational Structure of the SRF – Relevant Aspects.- 2.2 Cycle for the Formulation, Implementation and Evaluation of Tax Policy.- 3. Participation of the SRF in the Formulation of Tax Policy.- 4. Implementation of Tax Legislation in Brazil: Good Practices and Limitations.- 4.1 Good Practices – Investment in Computerization.- 4.2 Limitations.- 5. Evaluation of the Tax Legislation.- Juridical evaluation.- Economic impact evaluation.- Conclusion and Recommendations.

SUMMARY

The implementation and evaluation of tax legislation (TL) arise as issues of extreme relevance within the main theme of the “The Role of the Tax Administrations in Tax Legislation”. Focused on the experience of Brazil, this presentation begins with a general overview of its laws and the structure of the Secretariat of Federal Revenues (SRF), entity which

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represents the tax administration in that country. It is to be noted that within the Brazilian model, the participation of the tax administration (SRF) in the process of formulation of the tax policy is of utmost importance. This appears to have favored administrative simplicity and focusing on collection; however, to the extent Brazil reaches levels of tax burden similar to that of the developed countries, there arises the opportunity for the elaboration of a tax policy more directed at equity and economic efficiency. It is in this context where one locates the description of the most relevant aspects linked to the implementation and evaluation of tax legislation in Brazil. One sought to exemplify good practices related to the implementation of tax legislation; for example, the results of significant investment in technological innovation, but at the same time we have not forgotten the numberless limitations that still need to be adjusted. On considering the evaluation function, it is said that the SRF has been carrying out this function, according to its juridical and economic aspects, so as to avoid the appearance of gaps in the tax legislation that may contribute to tax evasion. In the conclusion of this presentation there is a list of possible alternatives that could be used for improving the tax legislation implementation and evaluation processes.

INTRODUCTION

The implementation and evaluation of tax legislation (TL) arise as issues of extreme relevance within the main theme of the "The Role of the Tax Administrations in Tax Legislation". Focusing on the Brazilian experience, this presentation begins with a brief comment on the structure of the country's legal order and the main activities of the Secretariat of Federal Revenues of (SRF), entity which represents the tax administration in Brazil. Thereafter, an analysis is made of the implementation function as such, by highlighting the "good practices" as well as weaknesses detected which require adjustments. The following topic deals with the evaluation function and how the SRF has been influencing the formulation of the Brazilian tax policy, so as to avoid certain gaps in TL from contributing toward tax evasion. On concluding the presentation there are listed some possible alternatives which could be used to improve the tax legislation implementation and evaluation processes.

1. THE BRAZILIAN LEGAL ORGANIZATION AND THE IMPLEMENTATION OF TAX LEGISLATION

Among the sources of Tax Law in Brazil, there are the Federal Constitution, international treaties and conventions, laws and decrees, among others. The Federal Constitution is at the peak of the country's legal code. In particular, in title VI, the Constitution specifically deals with the tax system. Article 150 defines the restrictions on the power to apply taxes, among which there are: to demand or increase taxes without any law providing therefor (principle of legality); charge taxes related to tax generating events prior to the enforcement of the respective law; and even more so, collect taxes in the same financial period and before ninety days have elapsed, as of the date on which the law providing for their creation or increase may have been published. These restrictions guarantee the taxpayer and the tax administration the time necessary for the adaptation of the economic and administrative structure to the new rules. However, not all taxes are subject to these rules and, therefore, the Secretariat of Federal Revenues must be prepared to immediately adapt itself to certain changes, by altering instructions, manuals and procedures in compatible time. This is the case, for example, of the rates of Import Tax and the Tax on Industrialized Products (IPI¹) which may be changed through legislative act that determines their immediate enforcement.

Below the Constitution there is the National Tax Code (CTN – Law 5,172/66), which provides for the general tax law rules that are applicable to all levels of the government. In article 104, the Code confirms and expands the constitutional restriction stated above; that is, the one that does not admit the collection of tax in the same financial period in which the law providing for its creation or increase is published. It is to be pointed out that the Code admits the precedence of international treaties and conventions over the internal legislation. This viewpoint acquired great significance vis-à-vis globalization; however, it is required that the Secretariat of Federal Revenues be capable of promptly adapting itself to the international taxation models.

On continuing, there are the laws, decrees and other complementary regulations, in this order. As in the majority of countries, the process of elaboration of laws goes through voting in the legislative assemblies and then, continues for the approval of the President of the Republic. Although it may not formally participate in that process, which deals with tax issues, it is common that inquiries be made to the SRF. One of the reasons

¹ Sort of value added tax which is applied to manufactured products and is the State's responsibility.

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explaining that participation is the country's need to maintain a balance on public accounts, in order to control inflation and the surplus goals, thus avoiding pressure on change and prices. Throughout the past ten years, the SRF has been assisting the government in ever more increasing collection, without the introduction of many new taxes. The collection effort comes to respond to the hope of promoting the execution of the social and development policies which are so urgently needed by the country. In addition to this, the SRF is the only entity having specific data on the taxpayers, economic and tax sectors; information which is vital to support any tax policy decision or as technical knowledge of the area². Thus, any change in the tax legislation is an issue frequently consulted with the SRF.

Besides, the Constitution, the international treaties, the Tax Code and the tax laws, there are numberless other sources of tax law, at a lower hierarchical level. Some of the ones most frequently used are the decrees, provisional measures³, resolutions of the Federal Senate and judicial decisions, all of which are in the external sphere of the SRF. Under the responsibility of the SRF are the normative instructions, regulations, execution standards, in addition to the administrative decisions and practices. It is worth mentioning that the SRF has significant participation in the elaboration of decrees and provisional measures dealing with taxation, thus reinforcing the idea that in Brazil, the tax administration plays an active role in the formulation of tax policy. The figure below illustrates, in sum, the legal organization as has been described.

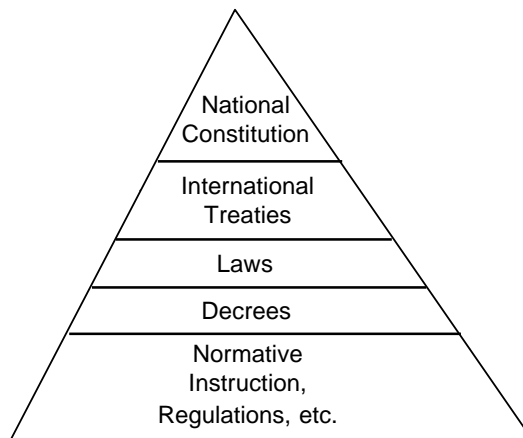


Fig. 1 – Hierarchical pyramid of the legal regulations of Brazil

² The subsequent sections provide more details on the SRF's participation in tax policy management.

³ The Provisional Measure (MP) has force of law and is issued and approved by the executive body. Its validity does not exceed thirty days, unless it is ratified as law by the National Congress.

On concluding this general overview of the Brazilian legal organization, it is worth commenting on the great effort made by the SRF's administration for complying with the law and at the same time, achieving the strict economic goals imposed by the federal government. Nevertheless, the hostility of the external environment requires from the Treasury a high level of adaptation. Such environment is characterized by the threat of loss of revenues as a result of globalization, tax evasion, unfavorable judicial decisions and serious and frequent threats to the fiscal activity, such as money laundering, contraband, piracy and corruption. In this scenario, it is observed that the SRF has produced a significant amount of complementary rules, in a continuous effort to adapt the TL to the needs of tax policy.

2. THE SRF AND THE BRAZILIAN TAX POLICY: FORMULATION, IMPLEMENTATION AND EVALUATION

The tax administration, in general, must ensure compliance with the tax legislation. Nevertheless, as regards the participation of the tax administration in the process of determining policies, the countries differ with respect to the model adopted. Some accept that the same entity carries out the execution and counseling activities in the formulation of tax policy. Others restrict the tax administration merely to the executive function, transferring to another body the analysis of policies.

In Brazil, the SRF plays a relevant role in the formulation of tax policies, as has been previously said. In addition to being consulted in relation to these issues, at other times, it takes the initiative and provides the bill which, following approval from the Minister of Finance and the President of the Republic is sent by the latter to the legislative body. In fact, the tax policy function within the SRF is being substantially developed to the point that the tax administration has been assigned a specific department for the analysis and conception of the tax policy, at the same hierarchical level as its other traditional functions. It is therefore, important to analyze in detail the way in which tax policy is inserted within the SRF's structure.

2.1 Organizational Structure of the SRF – Relevant Aspects

Created in 1968, the SRF is directly subordinate to the Minister of Finance and is responsible for the joint administration of internal taxes and customs duties within the federal sphere. Separately, the SRF is responsible for approximately 48% of the Brazilian tax burden, which is equivalent to 17% of its GDP. The functional structure consists of central entities and decentralized units. The normative, supervisory and planning activities are carried out by the former, while the latter are in charge of the execution and operational functions.

In the central entities, located in Brasilia, the country's capital, the SRF has direct counseling bodies and entities for specific activities. The first ones lack regional projections; one of the most important ones being the *General Coordination of Tax Policy Office* (Copat), that is responsible for analyzing and assisting in the formulation of tax policy. Its main activities include:

- Undertaking economic studies regarding tax and customs issues;
- Providing subsidies for formulating and evaluating the tax policy; and
- Elaborating and disseminating economic-tax studies and statistics, as well as anticipating and analyzing tax revenues and contributions administered by the SRF.

Along the same line, worth noting is the *Parliamentary Counseling Section* of the Office of the Secretary, whose functions involve the follow-up of procedures dealing with matters of interest to the SRF at the National Congress.

The entities carrying out specific activities are organized by functions (and not by taxes) and cover regional projections of the basic functions of the tax administration. In this way, the objective sought is the administrative decentralization, by simultaneously maintaining standard procedures in the execution of the TL throughout the national territory. This structure may be clearly seen in the following organization chart.

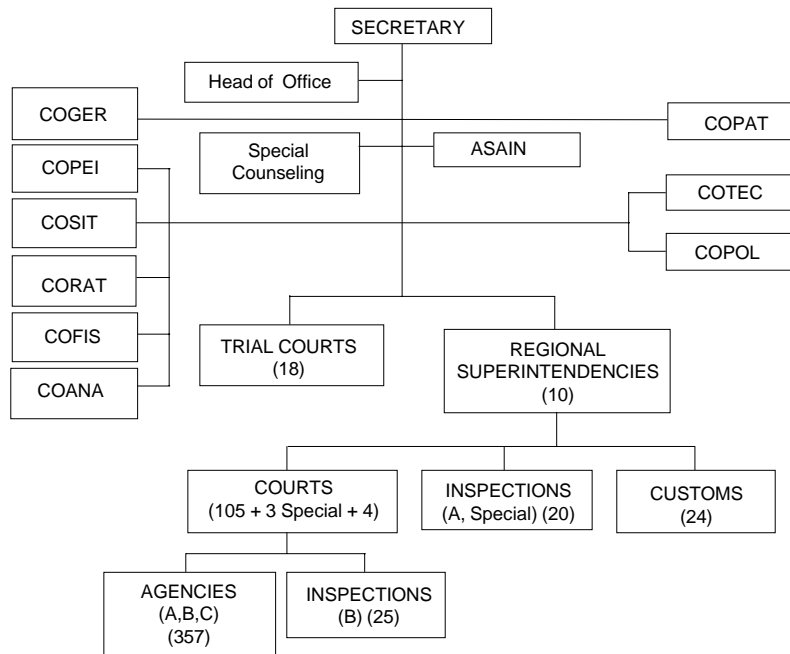


Fig. 2 – Organizational Chart of the Secretariat of Federal Revenues – Brazil

- ASAIN – International Affairs Counseling
- COGER – General Magistrate’s Office
- COPAT – General Tax Policy Coordination Office
- COTEC – General Technology and Information Systems Coordination Office
- COPEI – General Inquiry and Investigation Coordination Office
- COPOL – General Logistic Programming Coordination Office
- COSIT – General Taxation Coordination Office
- CORAT – General Tax Administration Coordination Office
- COFIS – General Examination Coordination Office
- COANA – General Customs Administration Coordination Office

As regards the implementation and evaluation of TL, worth noting is the General Taxation Coordination Office (Cosit), which operates as the normative juridical “arm” of the SRF. It is responsible for interpreting the tax and related legislation, issue rules intended to standardize the institution, modify and eliminate exemptions or reduction of taxes, tax incentives and special taxation regimes under the juridical aspect. Jointly with Copat, which evaluates such proposals from the economic-tax standpoint, it is one of the SRF departments that intervenes most in tax policy evaluation.

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The SRF also has regional and local units. The regional units are directly subordinate to the Secretary and comprise the *Regional Superintendencies of Federal Revenues (SRRF)* and the *Federal Revenues Trial Courts (DRJ)*. The superintendencies are a total of ten and each one is in charge of a part of the national territory. They basically supervise the local units under their jurisdictions and serve as liaison between the central bodies and the executing units as such. The Trial Courts (DRJ) are specialized bodies in charge of trial actions under administrative law in first instance. The local units are essentially executing bodies distributed throughout the Brazilian territory. They comprise the Courts, Inspection Offices, Customs Offices and Agencies.

There are also other specialized units such as the Special Financial Institutions Office (Deinf) and the Special International Affairs Office (Deain). Both have been recently created; in the case of the DEINF it resulted from the need to adapt the organizational structure of the SRFT to exclusive monitoring of the financial institutions and, in the case of the DEAIN, the need to provide legal guidelines for controlling transfer pricing and the adoption of the *worldwide taxation* regime.

2.2 Cycle for the Formulation, Implementation and Evaluation of Tax Policy

From the examination of the functional structure of the SRF it is concluded that the implementation and evaluation of tax legislation covers the flow of information from top to bottom and from the bottom to the top. After a vote is taken of the tax law at the National Congress and it is ratified by the President of the Republic, there begins the phase of execution, whereby the central bodies of the SRF, in general, plan the activities and necessary schedule for implementation. They elaborate and disseminate the pertinent normative instructions and other administrative acts in order that the executing units may fulfill the legal norm. It may thus be said that implementation of tax legislation takes place from top to bottom, following approval by the President of the Republic, going through complementation and regulation at the central bodies of the SRF and, finally, the execution by the local units.

In the inverse sense, the evaluation function begins with the compilation of external and internal data. The first originate from the most diversified sources of information, in the media, up to the national and international organizations. The second originate from local and regional units and achieve final compilation at the central bodies. The latter, in turn, use

this information to assist the Secretary, who may give his opinion and propose the maintenance, change or reform of the legislation.

In this way, the cycle of formulation and execution of the tax policy is closed. The first phase begins with the formulation up to effective publication of the normative legislation. The central bodies of the SRF are the only ones participating in that stage. The second phase is execution, where the decentralized units fulfill their regulatory role. The third phase corresponds to evaluation and feedback to tax policy formulators, who thus undertake the necessary changes. The figure below illustrates this process.

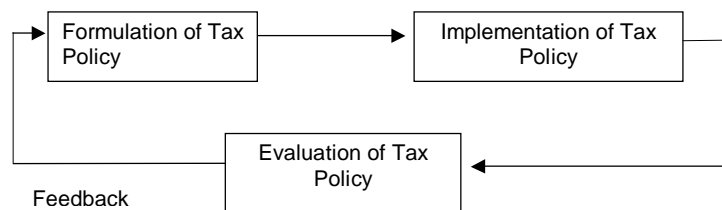


Fig. 3 – Cycle of implementation of tax policy

The formulation, implementation and evaluation functions will be detailed below according to a critical vision of each of them and in keeping with the SRF's experience, with emphasis on the last two functions. One will seek to reflect on the advantages and disadvantages of the model adopted, on the good practices and weaknesses found.

3. PARTICIPATION OF THE SRF IN THE FORMULATION OF TAX POLICY

The SRF's participation in decisions about tax policy has clearly contributed to administrative simplicity and commitment toward achieving the collection goals. On the other hand, it is natural to expect that the SRF's position will not favor the principles of economic efficiency of taxes and equity in relation to the previous ones. These issues are discussed hereunder:

Administrative simplicity - the approval of laws that emphasized tax simplicity and the rejection of projects with high administrative costs was a trend observed in Brazil in the decade of the 90's. Such phenomenon can be attributed (1) to the use of new technologies, such as automation of the bank collection network and the use of Internet as

TOPIC 1.3

means for the transmission of returns; and (2) the influence exercised by the SRF in tax policy, due to the administration's need to simplify its own work and to avoid the difficulties that are common to the increase of complexity of TL and the subsequent impacts on administrative costs. Thus, throughout the last decade, gaining importance were the taxes that were applied at the source, or on invoicing, or whose base was the presumption of income or profit. Such was the case of, for example:

- Corporate income tax estimated on presumptive profit;
- Simplified taxation of individuals whose income did not exceed certain limits and within the specified conditions;
- Numberless cases of taxation at the source;
- Social contributions for PIS/PASEP and COFINS, whose estimation bases were determined in accordance with the companies' invoicing. COFINS even reached collection levels comparable to Income Tax;
- SIMPLES, created as an aggregate of several taxes collected together in the form of a percentage on the invoicing of micro and small businesses.

Commitment with respect to the collection goals - the need to control the budget forced the Brazilian government to constantly worry about the levels of collection. The SRF, one of whose main objectives is the collection of taxes, could not cease to attribute a significant weight to this component, on evaluating any tax law proposal. It was thus, for example, that the SRF proposed and obtained approval of the rules that provided for changes in taxation of fixed income and increase of the rate from 15% to 20% for all fixed income application, starting in January/98, with significant results in the level of revenues. Another example was the increase of the rate of income tax withheld at the source on proceeds from labor from 25% to 27.5%, starting in January /98, which measure allow for fulfilling the budgetary goals of that fiscal period;

Economic Efficiency – although on the one hand, there have been gains in terms of administrative simplicity, changes in tax legislation have not always results in greater economic efficiency. This argument is being accepted by the media and followers among Brazilian congressmen. The result is that recently, there was a change in the bases for calculating some social contributions that came to be taxed under the noncumulative regime⁴. This eliminates the application in series at various points of the

⁴ Such contributions are PIS-PASEP and COFINS. Previously, those contributions were calculated on the basis of the gross income of the enterprises.

productive chain. The SRF now faces the tremendous challenge of adapting itself to new rules, providing adequate control systems, training its staff, issuing complementary rules for solving cases that are difficult to interpret, etc.

Equity and Tax Justice – In the same way as in the previous item, issues dealing with equity and tax justice have been criticized. Some argue that resorting to the use of direct discount has resulted in the tax burden being more heavily borne by the wage earner, with the liberal and autonomous professionals being allowed greater freedom. Others claim the correction of the income tax tables which, because they are frozen, do not absorb the effects of inflation. There are also those that demand the application of the same statutory rates to proceeds from labor and capital. In fact, those rates are, in general, higher for salaries, but do not always indicate taxation actually borne by the taxpayer. In addition to this, it is not a phenomenon that is exclusive to Brazil, since globalization of the world economy has been pressuring the treasury to alleviate the weight of taxes on capital. A recent study by the OECD verified the reversion of this trend in some of its member countries. In Brazil, the issue has been discussed at the governmental levels and by the media.

Summarizing, for many years the SRF's participation in tax policy has been relevant and it would seem that this has favored administrative simplicity and focusing on collection. Currently, to the extent Brazil approaches tax burden levels similar to those of the developed countries, of around 37%, there is the opportunity for elaborating a tax policy more direct at equity and economic efficiency. It is at this stage where Brazil finds itself at present. The goal is to collect taxes that will minimize the loss of economic efficiency, that they be fair but that will not result in loss of collection and that they be as simple as possible.

4. IMPLEMENTATION OF TAX LEGISLATION IN BRAZIL: GOOD PRACTICES AND LIMITATIONS

As has been observed, tax administrations have in common the fact that they are responsible for the implementation and execution of tax legislation. This section covers some good implementation practices used by the SRF, mainly those related with the dissemination of tax legislation, as well as the main limitations that may result in failures in implementation.

4.1 Good Practices – Investment in Computerization

Significant investment in computerization and technological innovation allowed for expanding the dissemination of tax legislation. Shown below are examples of some of the resources used by the SRF:

- Makes available and updates tax legislation in its page in Internet;
- Makes available the daily electronic newspaper “Infórmese”, for the updating of its employees;
- By means of systemic projections (on collection, examination, taxation, taxpayer assistance, information technology and programming and logistics), allows the exchange of electronic notes that speed up the uniformity of procedures;
- Makes available and updates SISCAC (system to support the taxpayer assistance centers distributed throughout Brazil), which consolidates all the legislation of interest to taxpayers, in order to standardize the assistance procedures throughout the country;
- In operations involving a large number of taxpayers, as is the case of the annual Income Tax Program, ITP, the SRF acts by means of notes, interviews and others, to clarify doubts;
- Makes available a tax service at all decentralized units where treasury agents work by shifts to answer taxpayers doubts; and
- Uses internal official correspondence, whenever necessary to point out or clarify doubts with respect to the legislation.

Therefore, it is observed that there are numberless resources for the internal and external dissemination of new rules on tax issues. Experience has shown that those resources have been satisfactory in most cases. Also, the federal government is increasingly using the Official Gazette of the Union (OGU) as official means for dissemination, wherein all normative acts are published. The OGU remains available in Internet and can be easily access for consultation purposes.

Also, based on technological innovation, the following actions of the SRF are worth mentioning:

- The expansion and improvement of internal training practices, many, even conducted at a distance, thanks to the use of the SRF’s Intranet;

- The intensive use of Internet, which serves as a means for filing returns (practically all returns are computerized), issuance of clearance certificates, inquiries with respect to registries and debits by the taxpayers and confirmation of the Tax Procedure Orders, thus avoiding fraud and closing the gaps to corruption;
- Recognizing the value of information for the SRF's work, the latter has organized its individual and corporate registries on the basis of reliable data that can be easily accessed. For this reason, the SRF counts on the most reliable registries in the country, to the point of being widely used as means of identification by other bodies. For the SRF, they constitute valuable raw material, without which the implementation of tax legislation would be seriously affected;
- National implementation of SISCOMEX, system to support foreign trade, which allows the unified updating of changes in customs legislation in less than 24 hours, even at posts located along the country's huge borders.

4.2 Limitations

The enforcement of the tax norm implies for the tax administration the duty of exercising examination and assisting the taxpayer in complying with his obligations. Nevertheless, many times, the Secretariat of Federal Revenues lacks the best of conditions for fully complying with the legal norm, after its enforcement. In fact, the effort of devoted officials has been essential in these situations.

It would be ideal if it were possible for the SRF to anticipate itself to the enforcement of the regulation and duly prepare itself. In this way, the SRF has been improving its strategic planning, seeking, among other administrative goals, to minimize the effects of changes in tax legislation. Nevertheless, there is still a long way to go, inasmuch as the experience with strategic and integrated planning at the SRF is still quite recent.

It is to be noted that the aforementioned tax principle that prevents the collection of the tax in the same financial period and likewise 90 days prior to the publication of the law that provides for its creation or improvement, is also an instrument used by the SRF administration. During this time frame, dissemination material and external and internal actions and others are prepared. Nevertheless, the time frame is too short for the preparation of projects of greater importance, such as the development of a specific computerized system, for example. In addition

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to this, as was already mentioned, there are cases in which that principle is not applicable.

There are also situations in which the new norm has deficiencies or lacks regulation or, even more so, cannot be implemented by the SRF (or any of its units) with the resources it has available. Some of the reasons that prevent the speedy, smooth and full implementation of the tax legislation are:

- a. Limited budget – the lack of financial autonomy prevents, many times, the SRF from acting speedily on the occasion of the issuance of new tax regulations. As a rule, the budgetary programming is prepared in the previous period and, therefore, changes intended to respond to new tax regulations, undergo restriction in accordance with the law on fiscal responsibility that prevents incurring into expenses without previously defined budgetary resources.
- b. Restrictions for hiring, relocation and dismissal of human resources – these restrictions contribute to the excessive accumulation of processes in the large urban centers and to the reduction of the probability of examination, among other undesirable effects.
- c. Lack of adequate computerized systems – although the SRF may have been successful with the use of information technology as a tool for increasing productivity, in certain cases, there is still a lack of those systems that became practically indispensable. The issuance of a new tax norm, will frequently require the use of an appropriate computerized tool and it takes some time before the new system is conceived, developed, tested, approved and put in operation. In the meantime, delinquency in compliance with the norm is inevitable.
- d. Lack of trained and specialized staff – many times, the issuance of a new norm calls for training the treasury agents without there being a sufficient number of specialists with the pertinent experience.
- e. Time difference between the publication of the law and the date of entry into force of the regulating norm – there are situations in which, even though the law is in force, it may still not have undergone the appropriate regulation through presidential decree or act of the Minister of Finance, the Secretary of Federal Revenues or other public authority. This happens because the preparation of a regulating norm also requires some time. The absence of a regulating norm, in specific

cases, prevents or renders difficult the work of the treasury agents, mainly when operational issues are not clear. From the taxpayer's standpoint, this cannot be a reason for hindering a right.

- f. Excessive bureaucracy –excessive bureaucracy is a negative factor preventive a better performance by the tax administration. The change of mentality calls for developing new leadership within the SRF and the expansion of capabilities aimed at the managerial activities.
- g. Failures in coordination, communication and integration – these occur at all levels and constitute one of the obstacles to the implementation of tax legislation. Certainly, the continental dimensions of Brazil worsen them:
 - i. Between the executive and legislative powers – this type of failure is reduced with the participation of the SRF in the process of elaboration of the tax legislation. Even so, not all norms go through the review of the SRF prior to being published;
 - ii. Between the executive and judicial powers – at times, the judicial authority determines compliance with a judgment of great operational difficulty. Probably, another much less complex solution could be adopted with the same results;
 - iii. Between entities of the executive power – an interesting fact is the segregation of the recovery function in Brazil. The SRF is in charge of the administrative recovery of tax credits, and the Office of the Attorney of the National Treasury, entity also subordinate to the Minister of Finance, the executive recovery of the same credits. With the intention of standardizing procedures, the two entities have published joint regulations. Nevertheless, the large volume of credits in the recovery portfolio and the extension of the terms suggest that such change should prosper even further; and
 - iv. Between the internal departments of the SRF – in spite of all the effort of the SRF's administration, which has been trying to integrate its functional projections through periodic meetings and formal and informal orientations, there are still cases of discrepancies occurring between the coordination offices, although less frequently.

The limitations in the implementation of tax legislation in Brazil are not reduced to those described above. However, they are sufficient to understand that the administrative effort must be constant, in the sense of promoting the improvement of the tax regulation implementation function.

5. EVALUATION OF THE TAX LEGISLATION

Many consider that the tax administration should not evaluate the law, but simply apply it. Nevertheless, it is the own administration's interest that application of the law be facilitated, since this contributes to reduce their operational costs. Even though it may not be an explicit regulatory function of the tax administrations to perform such evaluation, nothing prevents them from taking the initiative and to endeavor to feed back the legislative body with elements that may assist it in improving the legal organization. In addition to this, the administration itself is responsible for the issuance of complementary norms to the law, which many times also require observations. Thus, it is understood that the evaluation function should take place within the tax administration. The question is: how can it be organized?

In Brazil, the SRF, evaluates tax norms through the internal coordination offices of Cosit and Copat (both mentioned in item 2.1). The first is centered on the normative juridical aspects, while the second handles economic issues and the effects on the level of collection. Both coordination offices evaluate the norms before and after their respective enforcements. Below, greater details are provided with respect to those evaluation processes.

Juridical Evaluation

It would be beyond the SRF's functions to undertake an extensive juridical evaluation of the legal norms. However, the large volume of resources pending at the courts and which remain uncollected for the public treasuries suggest that the SRF should provide feedback to the legislators with objective information that may allow for improving the legislative process. In addition, the SRF needs to evaluate its own norms, since it is responsible for the issuance of numerous instructions, regulations and administrative acts. Much like the laws, those norms undergo the attack of taxpayers who try to evade the payment of taxes. It is not an exclusively Brazilian phenomenon, since there is recognition

at the world level, of the existence of a juridical industry specialized in tax planning and in counseling the taxpayers about the most original means (and at times illegal) for avoiding the application of taxes. Nevertheless, the SRF, through its taxation coordination office systematically evaluates its legal norms and, in this way, it has been possible to close several gaps in the Brazilian legislation. One may mention, for example, the various cases of requests for exemption from main and accessory obligations which are being examined by said Coordination Office.

Evaluation of the Economic Impact

This type of evaluation covers, above all, the impact of the norm on public revenues, but also considers the effects on prices, salaries, income, consumption, savings, in addition to other indexes; at the national level as well as the regional, state, municipal or sectorial level. It is to be noted that the SRF, uses, for such purpose, the aggregated data it has available, originating basically from the taxpayer returns, but also external data extracted from the media or electronic pages of other entities maintaining statistics. In order to make this possible, it was necessary to invest in technology and training of human resources. Thanks to the organization of its registered data and the use of specific codes for entry, professional economic activity and others, the SRF may obtain excerpts indicating the tax effect of a norm on a specific type of taxpayer and, also, develop simulations such as the increase of a rate, the alteration of a calculation base and others.

CONCLUSION AND RECOMMENDATIONS

Based on the SRF's experience, there arise ideas from improving the Tax Legislation implementation and evaluation functions that may appear to be useful to all tax administrations. The following are some suggestions:

- a. Establish strategic and dynamic planning, capable of effectively acting on the main problems of the organization;
- b. Promote broad dissemination of all changes in tax legislation through a single and reliable official instrument. Use Internet and the communications media, observing always the compatibility between the targeted public and the media used. Include the dissemination functions within the formal structure

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of the tax administration. Adopt an organizational structure that may allow the speedy flow of information from top to bottom and from bottom to top, as well as administrative decentralization so as to have units distributed throughout the territory, without losing the standard position of the entity;

- c. Confer autonomy to the tax administration to administer its human and financial resources, and maintaining them within certain limits that may respond to the balance of public accounts;
- d. Expand the communication channels between the tax administration and legislative and judicial powers, by means of seminar, meetings and others, so that by means of the exchange of ideas, the limitations, potential, goals and objectives of each one of them may be fully known to the others;
- e. Expand and develop relationships and joint work with other entities of the executive body and with the state and municipal treasuries;
- f. Establish an internal policy of automation and computerization that may increase productivity, the capacity for adaptation to changes, innovation, in a privileged manner and without affecting the security of the information;
- g. Promote the participation of the functional body, the development of leadership, training, the development of specialists and the change of organizational culture, especially as regards bureaucracy, which should not be seen as an end in itself;
- h. Seek to anticipate changes, by establishing a resources reserve for contingencies;
- i. Adapt what other tax administrations have been successfully doing since, in view of globalization, it is important that the procedures not be very divergent among countries, so as not to affect investment and the movement of capital;
- j. Create evaluation processes linked to the central command of the tax administration that may have full access to internal information and ease for mobilizing within the legislative bodies, in order to suggest ideas. In addition to evaluating the norms under the juridical, tax and economic viewpoint, the evaluation function could be organized so as to allow the opening of channels of access for the participation of taxpayers and employees.

In sum, it is concluded that the challenge of implementing tax legislation is, in reality, greater than it appears. The Brazilian experience in the administration of tax policy, within the tax administration itself, has proved to be very successful. To the extent the tax administration participates in the elaboration of the laws, it may anticipate and prepare itself for the necessary changes. In addition, this is useful so that those changes will not be disconnected, in practice, from the tax administration and so that new norms may arise with a high level of functionality. However, in order for this process to exist with simplicity and cohesiveness, there is still a hard work of integration of the various entities and areas that participate in the implementation of tax policy. This is the challenge that Brazil is facing at present.

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COMPLIANCE AND ADMINISTRATIVE COSTS

Lecture

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**CANADA'S APPROACH TO REDUCING THE COMPLIANCE
BURDEN ON TAXPAYERS AND CONTROLLING
ADMINISTRATIVE COSTS**

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*CONTENTS: Introduction.- 1. Cross-functional or Agency-wide Initiatives.-
1.1. Management of the taxpayer's file.- 1.2. Value-based initiatives.-
1.3. Partnerships.- 2. Initiatives Specific to Each Taxpayer Type.-
2.1. Small and medium businesses.- 2.2. Large businesses.-
2.3. Individual taxpayers.- 3. Administrative Costs.- 3.1. Reducing the
paper burden.- 3.2. Opportunities in technological advancement.-
CRA Initiatives for the Future.- Conclusion.*

INTRODUCTION

Canadian businesses are generally willing to comply voluntarily with the regulatory framework in place. Businesses recognize their role in society and the importance for them to contribute to the well-being of their community. They also generally understand that complying with government requirements is a necessary evil that ensures a level-playing field and therefore is part of doing business. With that said, they wish for the government to make it as quick, easy and affordable as possible to deal with the so-called "red tape".

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The regulatory burden is made up of several compliance requirements imposed by different levels of government. By far, the most important of these is the tax compliance burden.

This paper will focus mainly on compliance and administrative costs, their impact, and the efforts the Canada Revenue Agency (CRA) has deployed to keep them under control. Generally, compliance costs are defined as the total costs taxpayers must expend to comply with all tax legislation, regulations, and other requirements. Administrative costs are usually defined as those incurred by the tax administration to administer and ensure compliance with all tax programs.

This paper will not address the fiscal burden, an economic indicator represented by the percentage of revenues paid to all levels of government for different taxes. In Canada, the CRA is in fact only responsible for tax administration while the Department of Finance is tasked with setting out the fiscal policy.

Before turning to a presentation of the different initiatives the CRA has put in place to soften the burden of compliance, let us provide background information and a brief overview of the limited research done on compliance and administrative costs.

In a 2001 survey by the Canadian Federation of Independent Business, the tax compliance burden was identified by 80.4% of small business owners as their highest priority for governments to address. Well over 50% of Canadian businesses perceive record-keeping requirements and the cost of professional services as a source of high compliance costs. The study also shows that the tax compliance burden impacts directly on the level of commitment to compliance in the population and on the level of unintentional non-compliance.

Taxpayers are faced with compliance costs when registering, understanding their obligations, and preparing and filing their tax returns and payments. This can also include their cost to cooperate with compliance actions such as audit and other examinations. In addition to monetary costs (i.e. expenses easily attributable to tax compliance), taxpayers also incur opportunity costs to comply with tax law and regulations. For an individual this may result in less discretionary time and for businesses, it may represent for owners and administrators efforts and time spent on tax matters rather than on making the business more profitable.

Experts widely recognize that the tax compliance burden is caused primarily by the complexity of the legislation and legislative requirements, the cost of preparing and filing tax returns, and uncertainty and frequent changes in legislation and procedures. In examining the compliance burden, it is important to distinguish between routine business administration and government-imposed administrative activities.

Measuring the compliance burden is often difficult due to the discrepancies each method presents. Although there is very limited data on this topic, a recent study by the Public Policy Forum of Canada has estimated the cost of compliance between Cdn\$2.3 billion and \$4.5 billion annually. Furthermore, research by the Canadian Department of Finance confirms that the fixed-cost nature of compliance creates a greater cost impact on small businesses; an impact that decreases on a sliding scale with the increasing size of business. The greatest proportion of compliance costs come from the use of external assistance (accountants, bookkeepers, etc.) by taxpayers due to their perceived lack of technical knowledge, and their concern with keeping up with legislative changes.

The Government of Canada, as well as those of several other countries, is committed to the reduction of compliance costs. Several international studies have revealed that complex and numerous administrative regulations can impede business innovation, entrepreneurship and competitiveness. They may also have a negative impact on investment levels and productivity growth. Furthermore, governments recognize the importance of a client-based approach as fundamental in their effort to have streamlined processes.

The initiatives implemented by the CRA are of two kinds: Agency-wide initiatives and those that apply to a specific segment of the taxpayer population.

In Section 1 of this paper, we present several initiatives and concepts that the CRA has implemented to reduce the compliance burden for all taxpayers. In Section 2, we will deal with initiatives aimed at specific groups of taxpayers. The impact of these initiatives is, in most cases, empirical or confirmed through taxpayer satisfaction surveys.

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However, we must understand that there are limitations in the reduction of tax compliance costs. Governments must find the right balance between fiscal policy that covers different situations, ensures revenues, steers the economy, sets socio-economic standards but is also simple to administer and to comply with. Other limitations such as those related to privacy rules prevent the exchange of information between third parties that could produce further reductions in costs.

As a secondary focus, this paper will also examine operating or administrative costs related to tax administration. Keeping in mind the ultimate objective is to collect tax revenues, we recognize there is an unavoidable cost to encourage taxpayers' compliance and enforce laws and regulations.

Estimating and comparing the operating costs between different administrations presents a challenge due to the different methodologies used in measuring the expenditures devoted to enforcement vs. service. However, it can be argued that most activities and programs administered by the tax administration are meant to ensure compliance. The cost of collecting \$1,000, the usual ratio used to measure cost-efficiency, varies significantly among countries. Many factors can explain these variances, such as different legislation, varying levels of use of technology, and distinct approaches to taxpayer education, collections, and audit.

Regardless of the availability of resources, the CRA, like most other tax administrations, is always looking for ways to reduce its operating costs through innovation. In Section 3 below, we have outlined a few initiatives, legislative and otherwise, that have generated savings for the administration. A key decision factor in implementing these has been to consider the impact on the compliance costs for taxpayers. Ideally, no cost saving measure should be implemented to the detriment of taxpayers.

1. CROSS-FUNCTIONAL OR AGENCY-WIDE INITIATIVES

Such initiatives have an impact on all programs and all taxpayers. They represent concepts and approaches that permeate throughout the administration and have become the fundamental basis to achieving the revenue objectives of the CRA through increased compliance.

The approach followed by the CRA to address compliance costs focuses on three aspects:

- Management of the Taxpayer's File;
- Building trust by respecting a set of values;
- Building partnerships.

1.1 Management of the Taxpayer's File

The following initiatives are intended to facilitate the relation between the tax administration and the taxpayers, and by reducing the amount of information to be provided.

1.1.1 Business Number (BN)

Businesses in Canada have long expressed their desire to simplify the way in which they deal with government. The Government responded to these requests by committing to a more client-oriented service approach. In the early 1990's, the tax administration initiated the creation and the implementation of the BN. This single number replaced the many numbers previously required by businesses in their dealings with government institutions. The introduction of the BN aimed at helping businesses reduce costs, save time and be more competitive while enhancing government activities such as registration and client services, collections, audit and revenue accounting. In short, the BN helps both business and government reduce costs while improving the efficiency.

By way of background, prior to the introduction of BN, when a business registered for various government programs, it was assigned a registration number for each of these. The lack of a common identifier limited the government's ability to share information between various programs and required taxpayers to register separately with each responsible jurisdiction or government entity. As a result, taxpayers found that communicating with the government was complicated and confusing. In order to improve the service to taxpayers, the CRA, in cooperation with a number of provinces, implemented the BN.

The BN is a numbering system that streamlines and simplifies the way businesses deal with the CRA. The BN is made up of a nine-digit identification number unique to each business, followed by a program identifier (two letters) that identifies each program. The BN enables businesses with more than one program account to file under one number, simplifying a taxpayer's dealings with federal, provincial, and

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other levels of government. For example, a taxpayer uses the same nine-digit BN to file a Goods and Services Tax (GST) return and a corporate income tax return. This approach makes it easier for businesses to keep records and reduces the reporting burden by eliminating the need to provide duplicate information to different programs.

To date, the BN has allowed the CRA to develop successful partnerships with ten federal departments and five provinces that have adopted the BN as a program identifier for a number of their business programs. The CRA is currently working with other provincial governments to develop new partnerships as well as make the necessary legislative changes that will allow current partners to expand the use of the BN.

1.1.2 Risk management

The CRA is committed to managing the compliance risks in order to target efforts to areas and taxpayers of higher risk. By targeting scarce enforcement resources more specifically on less compliant taxpayers, the CRA is able to reduce the burden for compliant taxpayers and improve the perception and reality of fairness in the tax system.

The CRA enforcement strategy is comprehensive and calls upon risk management approaches in many of its processes. From registration to return processing, through audit, and collections, risk management is used to identify situations that present a higher risk of non-compliance. Risk management is applied to all types of taxpayers, including self-employed individuals, incorporated businesses, and other business returns. Risk management translates into specific actions and initiatives, such as the ones that follow.

- Upon registration, the GST/HST Enhanced Registration Review (GERR) initiative, introduced in 2003, ensures the integrity of the registration database and identifies potential high-risk registrations prior to issuing refunds/rebates. With the aid of various databases, potentially high-risk registrants are identified based upon pre-defined criteria and are referred to Audit for detailed analysis and possible audit action.

- Upon filing, all income tax and GST/HST returns are reviewed using advanced computer technology to match, analyze and examine the information received. These checks and validations include correcting arithmetical and balancing errors to ensure completeness and accuracy.
- In carrying out the audit selection, all corporate and individual income tax filers, as well as all GST/HST accounts are systematically risk assessed to identify potential issues of non-compliance and estimate the associated tax revenues at risk. The files are then prioritized and ranked according to risk. This information serves as a basis for assisting audit workload officers in Tax Services Offices in the selection of taxpayers to be audited.
- For outstanding debt collections, the CRA uses a two-fold risk-scoring process to predict taxpayers' behaviour with regard to debt repayment. First, a review of the delinquent account is conducted. Based on the results of this evaluation, an automated system scores the account and estimates the level of difficulty in collecting it the debt. Depending on the score, the collections strategy will vary and could go from sending a letter, to making telephone calls, to referring the account to a Tax Services Office. Applying risk-scoring methodologies has enabled the CRA to identify the most efficient actions to take in dealing with non-compliant taxpayers, and to implement measures that reduce future cases of non-compliance.

1.2 Value-based Initiatives

Building a trustful relationship with the taxpayers is of tremendous importance for any tax administration. Equity, fairness and flexibility on the part of the tax administration are essential in promoting voluntary compliance. Integrity is one of CRA's four core values. Taxpayers expect to be treated equally and fairly by tax officials and expect the processes will be clear and transparent. The tax administration must not only implement measures that ensure these conditions, but must also foster an environment conducive to building trust in the tax system.

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Over 90% of Canadian taxpayers have demonstrated they are willing to voluntarily comply with tax laws. Taxpayers are more likely to participate in the tax system if they are provided with timely, accurate, and accessible information to help them understand their entitlements and obligations. By offering interactive information services, and by making information more accessible, the CRA contributes to educating taxpayers and reducing their compliance burden. The CRA also ensures timely service through extended hours of service during peak filing seasons. It is also worth mentioning that all forms and publications used by taxpayers are distributed free of charge in paper format or electronically on the CRA website.

1.2.1 Integrity, Equity, Fairness and Flexibility

This approach relies on the integrity of tax officials and of the administration and effective internal processes. The burden on taxpayers is effectively reduced when tax officials develop, implement, and apply the legislation and regulations in a consistent and equitable manner. Integrity at the CRA is promoted through the development and issuance of a Code of Conduct, and the adoption of internal policies that deal with the way employees perform their duties. This is set against an ethics infrastructure that ensures adequate human resources management practices, internal mechanisms to ensure that there is no political interference, and procedures that are clear and well documented.

The CRA is also committed to dealing fairly with its clients. It recognizes that there are exceptional circumstances when taxpayers are temporarily unable to fulfill their legal filing and/or payment obligations. In these situations, tolerance must be demonstrated, and the CRA has developed mechanisms to help alleviate the burden on taxpayers affected by these circumstances.

In 1999, the CRA introduced a 7-point plan to achieve greater fairness. This plan outlines concrete actions that could be taken to promote, maintain, and enhance fairness in our dealings with taxpayers. As part of this initiative, several provisions were introduced to recognize differences and individual concerns of taxpayers. Through these provisions, the CRA is able, among other things, to assist taxpayers who, through no fault of their own, are unable to comply with a statutory requirement or have failed to pay or remit an amount when due. Taxpayers are required to apply for administrative relief under the fairness provisions through one of the CRA's local offices, and each case is reviewed using stringent guidelines.

Also considered under the fairness provisions is the waiver or cancellation of interest. A waiver or cancellation of interest can be considered in cases where legitimate financial hardship prevents payment of a liability in full and/or when extraordinary circumstances beyond the control of the taxpayer have prevented his/her compliance. In these instances, the guidelines established for the application of the fairness provisions must be followed. These have allowed the CRA to be more flexible and responsive to taxpayers' circumstances when it would be unreasonable or unfair to penalize them.

As well, the CRA recognizes that legitimate financial difficulties may arise which prevents the immediate payment of a tax liability. In these situations, arrangements may be made to allow the tax debtor to pay the debt over the shortest period of time, without causing undue financial hardship (provided there is no danger of loss and past compliance is not an issue). Payment arrangements are negotiated based on a detailed analysis of the tax debtor's ability to pay. An exhaustive review of the debtor's income, expenses, assets, and liabilities sets the terms of the negotiated arrangement.

As an alternative to payment arrangements, when a taxpayer has outstanding debt and cannot repay it in full, he/she may secure the debt with a security (i.e., real property mortgages, government of Canada bonds, etc.) until such time as they can pay the debt in full or the CRA can liquidate the security.

The CRA has also implemented other initiatives that demonstrate flexibility and fairness for taxpayers. These provisions aim at reducing the compliance burden on taxpayers. Interesting examples of these include:

- **Problem Resolution Program**

The CRA recognizes there are cases where normal administrative and operational channels and procedures are unable to resolve a taxpayer's problem. Through the Problem Resolution Program, the CRA can attempt to resolve controversial issues with taxpayers on a priority basis, if all other avenues have been exhausted. These cases are not received directly from a taxpayer or a CRA client, but are typically referred by CRA employees and by Members of Parliament on behalf of their constituents. Examples of potential problem resolution cases could include problems that will not likely be resolved

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through normal channels or without unreasonably lengthy delays or situations referred for humanitarian reasons, such as where the client has a serious illness or has personal or family problems.

The program offers flexibility in dealing with issues and provides the CRA with another opportunity to provide quality service to taxpayers, which in turn enhances their relationship with the CRA. Through the CRA's analysis of the nature and frequency of exceptional problems, it can identify opportunities for service improvement and put in place measures to minimize the number of service problems, thereby reducing the compliance burden for clients. This program may in some cases, generate savings for the administration when taxpayers resolve the problem informally, thereby eliminating the need to file a formal objection.

- **Voluntary Disclosure Program**

The Voluntary Disclosure Program encourages taxpayers who meet specific conditions to come forward and correct past omissions and incorrect reporting, and render themselves compliant. This self-correction gives them an opportunity to settle their affairs with the tax administration and apply for a waiver of penalty. Taxpayers are expected to pay in full the total new amounts owing and to make a full disclosure of the facts. This program provides yet another opportunity for taxpayers to comply while reducing, to a certain extent, the necessity for enforcement actions.

- **Increased Timeliness for Appeals**

The CRA is committed to reducing the time it takes for taxpayers to obtain an administrative decision when a notice of objection is filed against the. Satisfaction surveys have indicated taxpayers are dissatisfied with the response time and also wished to receive an acknowledgement of receipt of the objection. Keeping in mind the complex nature of most notices of objections filed, the CRA has publicly pledged to have initial contact with clients within 30 days of the date a notice of objection is received by the administration. This service standard provides better and timelier information to clients and introduces the opportunity for early dialogue leading to more realistic expectations about the dispute resolution process.

For individual taxpayers who file an objection regarding less complex issues such as those related to post-assessment modifications (also known as reassessments), and that provide all background documents and information when filing the objection, the CRA has implemented a fast-track appeals decision process. In these cases, taxpayers can enjoy a quick turnaround time that is generally well under the maximum time of 90 days prescribed by law.

1.2.2 Accuracy and accessibility of information

Canadians are given the option to deal with the Agency through the service channel of their choice: by phone, through the Internet, by correspondence, or in person. The CRA continues to work towards improving all channels so they are equally accessible and easily navigable, which in turn makes it easier for clients to retrieve information and answers to their questions. Moreover, the CRA ensures its communication products are adapted to the target population by using plain language and wording that explains complex concepts in the simplest way possible. Special care is also taken to provide communication products tailored to the disabled (Braille) and socio-cultural groups (foreign languages).

Although a large volume of correspondence is still received on paper, the Internet is now becoming the primary reference tool for taxpayers. The CRA is working to provide Canadians with enhanced secure on-line access to client-centered, integrated services, anytime, anywhere and in the official language of their choice. The CRA is also working to move the web from a repository of general information, to a site with content that provides answers to taxpayers' specific tax questions.

The CRA has taken an aggressive approach to turning the web into a program delivery channel geared to providing a level of service for client enquiries comparable to that provided in the telephone channel. As a means of addressing taxpayers' demands for improved services, the CRA strives to provide more accessible self-service tools, including improved "bundling of services" (i.e. all links to the CRA's electronic services are on one page) and site navigation. The CRA website has adopted the "3-clicks" philosophy ensuring that a taxpayer using the site to search for a topic should not have to select more than three links to retrieve the desired information.

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Tax information on the CRA website has been developed using probing principles that are similarly used by telephone agents. Recognizing that clients may not always be able to find the information they require or may require more detailed information, the site provides a 1-800 telephone number (Smartlink) which connects them to subject matter experts in one of the general or business enquiries call centres. The site also provides an identification number to the agent, which identifies exactly where the client is on the site. The call centre agent assists the client to navigate the site to find exactly what they require or provide more in depth responses, if appropriate. Through feedback collected from taxpayers, the CRA is continually striving to amend the information on the site to improve the usability.

The CRA continues to provide more traditional service channels. Tax Services Offices (TSOs) are available across Canada, providing taxpayers with a walk-in service where they can make payments and/or file their tax returns. It is essential that TSOs be centrally located and accessible to the public, and they are typically situated in highly populated areas that generate the most traffic. These offices also offer service counters where client service representatives are available to answer questions and assist with the completion of tax returns.

For taxpayers who are unable to access any of the other service channels, the CRA provides taxpayers with a 1-800 enquiry phone line which connects taxpayers to a client service representative who can assist them with meeting their filing and remitting requirements. Calls are answered on a first-in, first-out basis and assistance is available up to 12 hours a day, 5 days a week. E-service Helpdesks are also available for clients requiring assistance filing their returns or payments electronically, as these queries usually relate to issues with the software or servers being used by the taxpayers and require a subject matter expert with a different type of technical experience.

These initiatives make it easier for taxpayers to obtain the information they need in order to comply with their tax obligations. The CRA is constantly looking for new ways to deliver information to taxpayers. With increased accessibility, accuracy, and usability, the taxpayers' compliance costs are undoubtedly reduced.

The CRA has also adopted a more proactive approach through the Outreach Program. Outreach was designed to increase awareness of CRA programs and benefits at the community level, to identify taxpayers in need of assistance in complying, and to encourage them to be

compliant. The program calls for activities such as small business seminars, community visits, books and records review, volunteer tax preparation, and other client-based programs for both individuals and businesses.

Outreach representatives are able to elevate the visibility of the CRA and promote its image as a helpful and professional organization that cares about its clients. Outreach has also given the CCRA an opportunity to consult with taxpayers on various programs. Through this initiative, the CRA can receive valuable feedback on the usability, cost effectiveness, and viability of its services.

1.3 Partnerships

In an effort to improve and diversify services, and as a way to reduce duplication of efforts for taxpayers, the CRA is constantly looking for opportunities to establish partnerships.

For many years, the CRA has had partnerships in place with provincial governments and other federal departments. This approach not only has produced savings for these organizations but also has significantly reduced the compliance burden for taxpayers. The CRA's status as an Agency, rather than a government department, gives it the flexibility required to develop these partnerships with other government organizations and the private sector.

1.3.1 Other Federal Departments

The main objective of partnerships with several other federal government departments is to reduce the number of organizations taxpayers need to report to and interact with in order to comply. In most cases, the CRA administers programs on their behalf. This also allows for better consistency and alignment of the business requirements of all programs.

Below are some examples of these key partnerships:

- **Canada Pension Plan and Employment Insurance**

The CRA has developed a partnership with Human Resources and Skills Development (HRSD) and Social Development Canada (SDC). Under this agreement, the CRA collects Employment Insurance (EI) premiums on behalf of HRSD and

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Canada Pension Plan (CPP) contributions on behalf of SDC. In Canada, all employers are required to deduct taxes, EI premiums, and CPP contributions at source from employees, consolidate the payroll amounts into a summary report, and then remit payment to the CRA. Once the monies and information are collected, the CRA transmits them to the appropriate department to ensure the individual's future pension benefits and EI eligibility.

To expand this service and make it even easier for business filers to comply, the CRA is examining options to create an electronic service that will allow employers to send their payroll and earnings information through a central point. The information could then be retrieved by the CRA, and other department partners could also retrieve their own data if they chose to. Once implemented, this service will provide filers with an efficient and automated approach to filing information once for several government departments. In addition to eliminating duplication of government requests, it will improve compliance by offering simplified filing methods and more immediate validation of filing errors.

- **Business Registration Online**

As an extension to the Business Number (BN), the CRA has implemented an integrated registration process that allows businesses to register for federal and provincial programs simultaneously with the participating partner(s) and the CRA in one Internet session using Business Registration On-line (BRO).

BRO provides single window service delivery for obtaining a BN and related CRA and provincial/federal partner program accounts. By way of example, the federal government has partnered with the Nova Scotia provincial government for the Workers' Compensation Board and with the Ontario provincial government for the Ontario Sales Tax. These partnerships enable taxpayers to register for several programs, each with the same BN but a different program identifier. This initiative has eliminated, in many instances, the need to register the same business with 4-5 administrations; this represents a reduction of the duplication of effort and of the compliance burden on taxpayers.

1.3.2 Provincial Governments

The CRA is a key service provider to provincial and territorial governments, and First Nations (aboriginals). The CRA administers, assesses and collects personal income tax and corporate income tax for most provinces/territories in Canada. This long-lived partnership has proven very beneficial for provincial/territorial governments in that they do not need to set up their own tax administration. Taxpayers also have benefited since, in most cases, they only need to file one personal income tax or corporate tax return.

The CRA also administers a range of ongoing benefits and one-time payments on behalf of the provinces and territories. Taxpayers may qualify for various credits and benefit payments based on annual income by simply filing their tax return instead of multiple forms.

- **Harmonized Sales Tax (HST)**

In 1997, the federal government and three provincial governments agreed to merge their respective provincial sales tax (PST) with the federal goods and services tax (GST) to form a simpler and fairer value-added tax system. The tax revenues generated are shared with the provinces on the basis of a formula, eliminating the need for precise tracking of inter-provincial movements of goods. The creation of HST resulted in a system that is fairer to consumers and small business, that minimizes disruption to small businesses, and that promotes fiscal co-operation and harmonization among federal and provincial governments. The provinces benefit from lower administrative costs that are achieved through the elimination of overlap and duplication in the administration of federal and provincial sales taxes.

For businesses, the creation of HST means there is no need to separately identify the federal and provincial components of the HS. They are able to conduct business using a single set of operating rules and sales tax forms. Businesses in participating provinces can deal with one tax administration rather than two. This simplified method of reporting not only reduces compliance costs associated with the filing of multiple forms, but also eases the compliance burden by providing a simplified method of reporting. In addition, because businesses are entitled to recover the HST payable on their business inputs, the harmonization improves competitiveness and cost-efficiency.

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1.3.3 Private sector

The CRA has put in place mechanisms to facilitate consultations with groups and individuals from the private sector that have a stake in how taxes are administered and how programs are delivered. As part of any change or reform, the CRA regularly consults with different groups on an ad-hoc basis or through well-established committees like the *Small Business Advisory Committee*, the *Seniors Advisory Committee*, or the *Tax Professionals Consultative Committee*. The CRA also maintains a good relationship with the business community through open communication with Chambers of Commerce and other business organizations such as the *Canadian Homebuilders Association*.

The previous examples are only some of the partnerships the CRA has established in an effort to reduce bureaucratic requirements and simplify administrative procedures. No doubt that cooperation with all stakeholders is key in understanding and meeting their needs. By taking into account taxpayers' needs and expectations and by leveraging our system to provide more services on behalf of our partners, we can improve service quality, eliminate duplicated effort, and reduce the compliance burden.

The CRA has developed a pro-active approach to working with commercial developers who create tax preparation software for personal and corporate income tax returns. The CRA is in constant contact with these developers to ensure that all products meet CRA specifications, and to ensure they contain validations that will help to ensure the taxpayer is providing the information required for tax purposes. The CRA is also working closely with industry to develop standard language protocols that can be embedded in all software.

By creating software within CRA specifications and aligning it with the way that taxpayers do business, it can contribute to decreasing the compliance burden by providing a tool that will facilitate the completion of complex tax forms. Also, by designing the software to ensure that taxpayers submit all of the required information in their initial filing, it is much less likely that follow-up contact with the taxpayer for further information/clarification will be required.

2. INITIATIVES SPECIFIC TO EACH TAXPAYER TYPE

2.1 Small and Medium Businesses

Small and medium businesses in Canada represent the great majority of business taxpayers and a significant portion of tax revenues. The CRA is committed to addressing their concerns and reducing their compliance burden through initiatives especially adapted for them. Below are examples of services and programs that are meant to simplify their dealings with the tax administration by improving the access to their account or by avoiding unnecessary interactions. Some of these initiatives also benefit other types of taxpayers such as large businesses and individuals.

2.1.1 General Initiatives

Electronic Services

Canadians demand government services that are secure, reliable and easy to access. To meet these needs, the CRA has developed a number of Internet based filing services that allow taxpayers to file their returns directly with the CRA over the Internet. Some examples of electronic services that are tailored to meet the needs of small and medium businesses are GST/HST NETFILE and GST/HST TELEFILE, Corporation Internet Filing, and Information Returns Internet Filing. These electronic filing options allow businesses to interact directly with the CRA, and provide cost savings to taxpayers by eliminating paper handling, and reducing time and errors.

Although traditional methods of filing are still available to taxpayers, there are many advantages associated with using electronic services. These include: receiving an immediate confirmation of a filed return; no longer having to mail in paper returns. In the case of filing a GST/HST return, it provides faster refunds. Providing taxpayers with more than one channel for filing also encourages voluntary compliance.

In addition, there are also electronic payments options available to taxpayers. In order to facilitate clients meeting their payment requirements, the CRA works with Canadian financial institutions to develop online services where taxpayers can access their bank's website and make a payment (and file a tax return) for a CRA program account. This service is available for both individuals and businesses, and varies somewhat depending on individual financial institutions.

Combined Audit Program

This program provides a more efficient use of audit resources where one auditor conducts concurrent audits of the taxpayer's records to determine compliance with both Income tax and GST/HST legislation. The taxpayer benefits from this approach in that his books and records are reviewed only once and normally less audit time is required than if separate audits were conducted. In addition, the taxpayer/registrant benefits from dealing with only one auditor and all compliance problems can be resolved at the same time.

Desk Audit Program

This program does not require the auditor to visit the taxpayer's place of business or the accountant's office. The interruption to the taxpayer's business is, therefore, kept to a minimum. The audit scope is usually limited to verification of specific items identified by the audit workload development officer or as the result of a referral. The taxpayer or the accountant is usually contacted by phone and may be required to provide supporting documentation by mail or by facsimile.

2.1.2 Goods and Services Tax (GST)/ Harmonized Sales Tax (HST)

Under the GST/HST tax program, small and medium businesses have various entitlements that are intended to reduce their compliance burden.

To encourage the establishment of small businesses, a small supplier does not have to register for a GST/HST account if their gross annual sales are \$30,000 or less. This reduces their compliance burden by allowing them not to collect GST/HST from their clients nor remit payments and file GST/HST returns. The CRA is able to balance this provision by making it mandatory for any identifiable high-risk taxpayers to register for a GST/HST account.

The CRA also has attempted to reduce the compliance burden for public service bodies (e.g. charities, non-profit organizations) by not requiring them to register for a GST/HST account if the total taxable revenues from all of the activities of their organization are \$50,000 or less. The CRA also provides them access to a rebate system adapted to the nature of their activities.

By reducing the complexity of calculating taxes, taxpayers are more likely to comply with meeting their tax obligations. Through the provision of simplified accounting methods for calculating GST/HST, small businesses can calculate their tax simply and faster. The CRA offers two simplified accounting methods: one provides taxpayers with a streamlined way to calculate the amount of GST/HST they owe; and the other method provides an alternative way to determine the input tax credit portion of their GST/HST return.

Small businesses are required to provide their customers with specific information on their invoice that will allow them to support a customer's input tax credit claims; however, smaller businesses are not required to provide as much information on invoices, sales receipts or other documentation. This in turn simplifies business requirements, thus providing the taxpayer with a further incentive to comply. Depending on the dollar value of sales, the information required on an invoice increases. For example, for low priced items under \$30, the trading name, invoice date, and total amount paid is required. As the price of items increase, suppliers may need to provide additional information such as their address, the customer's name, a description of the goods or services provided, etc.

In order to enable small and medium businesses to align their normal business practices with their tax obligations, CRA offers flexible filing frequencies for remitting GST/HST. This provision allows taxpayers to select the filing period ends that best fits the way they do business.

2.2 Large Businesses

In Canada, large businesses are defined as those corporations with gross annual revenue of \$15 million and over. They represent a distinct community covering a variety of entities with wide-ranging business activities. As a result, initiatives specific to large businesses are developed keeping in mind their specific needs in order to improve service to this group. Nevertheless, some of these initiatives also apply to small and medium businesses. The following are some of these initiatives:

2.2.1 Advance Rulings

An advance ruling is a written statement given by the CRA to a taxpayer explaining how the tax administration will interpret and apply specific provisions of existing Canadian tax law to a specific transaction that the

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taxpayer is contemplating. The goal of the advance ruling service is to promote voluntary compliance, uniformity, and self-assessment by providing certainty with respect to the tax implications of a proposed transaction.

An advance ruling is binding upon the CRA, provided the taxpayer has presented all relevant information regarding the transaction. This service is provided on a cost-recovery basis but can represent a clear advantage for taxpayers over time in that it may shorten any future audit action dealing with the specific transaction.

2.2.2 Real-Time Audit

In real-time audit, the CRA conducts an audit of issues before the corporation files its income tax return. The main objectives of this type of audit are to reduce the time it takes to complete it and to ensure compliance. Each issue examined is filed according to an agreed position and once complete disclosure is achieved, a given issue is not subject to further audit. It gives corporations the assurance that they are fully complying with complex tax issues prior to filing.

2.2.3 Audit Protocol

This agreement establishes a clear framework between the CRA and a corporation outlining how the audit process will unfold. The protocol covers the major audit functions, including any involvement that may be required by specialized audit areas such as international tax, Goods and Services Tax, payroll, and revenue collections. With a protocol in place, a well-functioning relationship is established and formalized at the beginning of each year through consultation with the corporation on the development of an audit plan. This approach reduces the compliance burden by giving advance notice of the audit activities making it easier for corporation to better plan the availability of their accounting staff.

2.2.4 Account Manager

This pilot project is the result of recent consultations with a number of large businesses through focus groups and one-on-one interviews. The account manager is responsible for the compliance and business relationship between a large business taxpayer and the CRA. Supported

by an appropriate framework, the account manager manages this relationship across all functions by bringing into play the right mix of CRA services; developing service agreements; focusing on early resolution of outstanding issues so that filing years can be closed; and using a variety of approaches to provide better service and achieve compliance. The account manager's emphasis is on ensuring compliance but using less burdensome approaches where appropriate. Large taxpayers benefit from this approach by having a unique contact person at the CRA to handle their concerns and enquiries.

2.2.5 Scientific Research and Experimental Development (SR&ED) incentive program

This program is an important element of the Canadian government's strategy to improve competitiveness given the strong link between investments in science and technology and economic growth. Small businesses are also eligible for this program. However, surveys have identified compliance costs as the largest impediment to making SR&ED claims.

In order to ease the burden for filing and obtaining approval for these claims, the CRA has implemented the Pre-claim Project Review service. This advisory service provides an up-front review and a preliminary opinion on the eligibility of projects for SR&ED tax incentives. The benefits include more up-front certainty for the claimant about the eligibility of Research and Development projects for these tax incentives; reducing paper work and preparation costs and allowing for faster refunds after a claim is filed. Similar to the Account Manager, the Account Executive provides the SR&ED claimant with a designated contact person.

2.2.6 Advance Pricing Arrangements (APA)

These arrangements between a taxpayer and the CRA Competent Authority confirm an appropriate transfer pricing methodology to be used in determining arm's length prices on cross-border transactions between related parties. Complying with an APA provides taxpayers with the protection against audit adjustments and related penalties. The agreement can be effective up to 5 years into the future and in some cases be applied retroactively. Such a coverage period reduces the costs of preparing annual documentation to support transfer prices.

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Furthermore, the experience gained during initial agreements can ease negotiation of their renewal, thereby extending the coverage period. Once APAs are in place, the CRA can cut down on audit time and further reduce the compliance burden on the taxpayer.

2.3 Individual Taxpayers

In Canada, individuals represent the largest taxpayer group with a number well over 23 million persons filing a tax return every year. This group also accounts for a large proportion of tax revenues. In order to encourage voluntary compliance, the CRA is committed to identifying new ways to facilitate filing and reporting. The advent of new technologies creates opportunities for new services, but also forces the CRA to be innovative in the protection of information.

2.3.1 Electronic Filing

For small and medium businesses, the CRA has developed a number of electronic filing services that allow taxpayers to file their returns directly with the CRA. Similarly, a number of other electronic services are available to facilitate the transmission of individual taxpayers' information to the CRA.

Taxpayers, both business and individuals, have taken advantage of these new filing options in impressive percentages. Much of this is due to proactive action on the part of the CRA to encourage taxpayers to use these services. Well over 50% of individual returns are filed electronically whether by EFILE, NETFILE, or TELEFILE.

The EFILE service, the most widely used, allows authorized private-sector service providers to transmit individual income tax return information to the CRA via the Internet. The NETFILE and TELEFILE services allow individual taxpayers to file a personal income tax return through a secure Internet site or over the telephone. The provision of these electronic filing options improves the accuracy of the data being received by the CRA and in turn reduces the number of errors and the data capture costs. It also gives taxpayers an instant confirmation of receipt and cuts down on turnaround times for the issuance of refund, an advantage greatly appreciated by individual taxpayers. This self-service approach increases the number of filing options for taxpayers, which has a direct positive impact on voluntary compliance.

2.3.2 My Account

The CRA has developed a secure channel that provides individuals with an option to enter a secure session on the Internet and retrieve their personal tax and benefit information. This new online service is called “My Account”, and it allows Canadians secure access to their information 7-days a week, 21-hours a day. By using this service, taxpayers can have fast, easy, and convenient access to their information from the comfort of their home.

My Account gives taxpayers the convenience and flexibility of viewing their personal income tax, Canada Child Tax Benefit (CCTB), and GST/HST credit information on a secure web site. My Account ensures accuracy of client information, as a taxpayer can verify their information online (i.e. a detailed statement of their account). It also enables taxpayers to have more control over their dealings with CRA, which in turn helps them meet their tax obligations. Currently, the information on the My Account service is provided for individual taxpayers’ exclusive use only.

2.3.3 Outreach Program

The Outreach Program developed by the CRA is also used to educate individual taxpayers and facilitate their compliance through various activities. Outreach offers a number of activities specific to individual taxpayers, including the coordination of the yearly Community Volunteer Income Tax Program (CVITP) and the Teaching Taxes Program.

The CVITP is a community-based outreach program where volunteers (including accounting firms and CRA employees) donate their time to assist individuals who are unable to meet their tax filing obligations (e.g. low income individuals). The CRA also provides training to those volunteers who aren’t very experienced with tax preparation to ensure that they are providing a valuable service to taxpayers who would otherwise have difficulty with completing and filing their returns. This program encourages compliance through facilitation; however it also promotes electronic filing options by providing software and technical guidance to taxpayers.

The Teaching Taxes Program is designed to introduce high school and post-secondary students to Canada’s tax system and it teaches them the practical skill of preparing a basic income tax and benefit return.

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The CRA, in cooperation with provincial governments, distributes these learning materials nationally, free of charge, to more than 4,000 teachers and 75,000 students each year. This program not only introduces students to tax, it also shows them the economic implications of non-compliance. By instilling the idea of voluntary compliance in students, it is likely that they will take this idea with them into the world of business.

2.3.4 Simplified Personal Income Tax Returns

The CRA encourages voluntary compliance by publishing a number of simplified income tax and benefit returns that reduce the time needed to complete an income tax return. Based on the types of income, deductions and credits reported in the previous year by an individual, the CRA will mail filers a special return that is less complicated to complete than a regular return. For example, the CRA provides simplified returns for seniors, low-income individuals, and individuals who are aboriginals or fall under the Indian Act and reside in a specified province. These select groups typically submit less complex information to the CRA than other individuals, and the CRA has in turn developed these special returns to reduce the compliance burden for these taxpayers.

3. ADMINISTRATIVE COSTS

A modern tax administration must ensure it delivers its programs in the most cost-effective way. In the fiscal year 2003-2004, the CRA budget amounted to Cdn \$2.3 billion, approximately 80% of which was spent on salary costs. During the same period, the CRA collected approximately Cdn \$240 billion in taxes and other levies. While the primary concern is to ensure compliance, the CRA is conscious of the importance to make decisions that offer the best cost-benefit ratio. In order to maintain costs at an affordable level, the CRA has adopted an approach that focuses on improved resource allocation and a reduction of costs.

In many cases, administrative cost savings come from simplifications in procedures; these changes often also benefit the taxpayers. The CRA ensures that changes made to operational processes do not have a negative impact on compliance costs for taxpayers. Another key contributor to administrative cost reductions is the ever-increasing use and advancement of technological solutions; these allow the administration to carry out similar tasks in a faster and more efficient way.

The Business Number (BN), an important cross-agency cooperative initiative previously presented above, also reduced the CRA's costs. Since its implementation, the BN has improved efficiency and effectiveness as well as the accuracy of business registration information that governments maintain and share for administrative and compliance purposes. For example, if a registrant changes their client information with one program, multiple programs can simultaneously capture the changed information. This alone has an impact on operating costs notwithstanding the positive impact on compliance.

In the following section, we have outlined a few examples of cost-cutting initiatives and legislative provisions that have significantly reduced administrative costs.

3.1 Reducing the Paper Burden

The CRA has introduced changes to a number of filing requirements that reduce the paper burden for taxpayers. These changes in policy have produced significant savings for the administration by reducing the need for archiving space, and staff for sorting and handling. For example, individual taxpayers are no longer required to submit their receipts when filing a personal income tax return electronically. In this case, taxpayers are required to keep their supporting documents on hand for 6 years should the administration proceed with an examination.

For the business community, another similar initiative was implemented for GST/HST registrants. Depending on their particular circumstances or the nature of their business, they can request to stop filing returns for reporting periods during which they have little or no GST/HST to report. For example, a taxpayer who runs a seasonal business may elect to stop filing returns during the months that no business is generated. This reduces administrative costs to the administration by eliminating the processing of nil returns. It also benefits taxpayers, as they no longer have to file their GST/HST return during periods when there is no business activity.

3.2 Opportunities in Technological Advancement

Through the provision of various electronic filing and payment services, the CRA has expanded its service channels to allow taxpayers to do business with the government more effectively and efficiently. The CRA

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is confident that up-front investment costs to implement these new services will produce significant long-term cost reductions both for the administration and the taxpaying community. When a taxpayer electronically files a return, this automatically reduces the processing time and the possibility of keying errors. Error correction is the most expensive portion of processing returns, and by encouraging clients to file their returns electronically, the administration benefits directly from fewer errors.

Increased usage of the CRA's electronic services incurs a cost savings in the storage of documentation that is no longer required when information is received through electronic service channels. The CRA's electronic services benefit taxpayers by offering them a paper free transaction, which in turn reduces mailing and administrative costs. By promoting electronic channels for filing, remitting, and education, the CRA encourages taxpayers to use this lower cost option of client service, and inevitably saves resources.

The CRA offers various electronic channels for making payments that provide taxpayers with options for remitting besides going to a bank or mailing in a payment. Taxpayers can use the Internet or telephone banking services offered through their financial institutions, or they can sign up for pre-authorized debits, which are available for individuals only. These electronic payment options considerably reduce the processing costs of depositing cheques and saves both time and money for taxpayers. It is worth noting that the CRA does not financially compensate banks for processing payments on its behalf. However, taxpayers are usually charged fees to cover their bank's costs. This approach is widely considered as acceptable to the business community.

Direct bank deposits have generated important savings for the government in recent years. A majority of taxpayers request to have their refunds deposited directly to their bank account. This has produced cost savings for the CRA by reducing the need to print refund cheques, and it also benefits taxpayers since they no longer have to go to the bank to deposit them. As an indirect benefit to the administration, direct deposits enable the CRA to validate taxpayer information, by way of their bank account, which in turn provides an audit trail and reduces the incidence of fraud and non-compliance cases.

CRA INITIATIVES FOR THE FUTURE

Across the CRA, we continually look for ways to improve our program delivery and management practices. At the heart of the CRA's Corporate Business Plan is a continued commitment to provide Canadians with the best possible service while making wise investment and management decisions. This commitment will translate to initiatives aimed at meeting these objectives. As a framework for guiding this development, the CRA has created Future Directions, a process of engagement where staff, the public and unions are given the opportunity to provide their input on how to define the management business transformation agenda.

As part of process Future Directions, several large-scale projects have been launched, are:

GST Redesign

This initiative will re-engineer the GST/HST processing system and require the involvement of many different partners. The overall delivery of the GST/HST program will be modernized to provide efficiencies by simplifying legislation, programs and operations and correcting current known deficiencies.

Standardized Accounting

Using the Business Number (BN) as the basis for establishing a single account for each client, Standardized Accounting (SA) will integrate financial accounts for all business revenue types (i.e.: Corporation Tax, Excise Taxes and Duties, GST, Source Deductions) into one accounting system.

SA will provide the infrastructure to support single window service and electronic service delivery options, and provide a consolidated view of client accounts for audit and collections compliance activities.

Standardized Accounting will increase flexibility for business clients conducting business with the CRA (i.e., by aligning payment due dates and reporting periods, standardizing penalty and interest calculations, etc.). In this respect, the affected legislations will be harmonized and reviewed for consistency and uniformity. The new system will present accounting and payment information in a standardized format; respond

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to legislative change more expeditiously; and consolidate the Agency's Revenue Ledger to provide more detailed, timely financial reporting. It will ultimately establish a central facility for set-offs across programs and other government departments, automate manual workflows, and reduce mailing and systems maintenance costs.

Third-Party Authentication

CRA is working to expand the use of My Account, which is currently only accessible to individuals, to include businesses. This initiative is called "My Business Account", and it will provide a secure platform for business to transact with CRA through the Internet where they can view secure information, make payments, initiate account changes, etc.

As part of this initiative, CRA will be developing a system to validate the identity of third parties, such as accountants and legal representatives. It will also develop a process for tax professionals and non-professionals to register as representatives and a process for taxpayers to authorize their registered representative to transact electronically with the CRA.

CRA will also partner with other governments on the My Business Account concept allowing clients to move seamlessly from one My Business Account secure service to another across jurisdictions (such as from CRA to a provincial, municipal, or to another federal government service). The creation of this service will enable business to interact directly with CRA through an electronic channel, and thereby increase compliance.

Through these and other initiatives, the CRA will actively implement innovative ways to ensure further reductions of administrative and compliance costs.

CONCLUSION

The different initiatives presented in this paper address in varying degrees, the concerns expressed by the Canadian business community and individual taxpayers with regard to reducing the regulatory burden and improving the administration's cost-efficiency. Canadians continue to demand more from their governments.

While significant efforts have been made in recent years to reduce compliance and administrative costs, much remains to be done. The Canadian government is a strong supporter of initiatives that further reduce the compliance burden and it encourages all its departments to do so.

Governments have always demanded improved cost-efficiency so reducing administrative costs has been a priority for senior managers for many years. On the other hand, greater awareness for the scope and impact of compliance costs is still needed. The question remains as to what is the best approach to cut the compliance burden down.

So far, governments have adopted in this respect many different approaches from comprehensive regulatory reform to specific measures to address obvious problems. Broad-based regulatory reform may sometimes prove costly and time-consuming without producing the desired results. Ideally, governments should build-in simplicity as part of any new or revised law or policy; this approach reduces the probability of having to deal with unforeseen burdens by not implementing them in the first place.

Consultations and cooperation with all stakeholders have been pivotal in identifying areas of concerns and possible solutions. The business community needs to be closely involved in the implementation of changes to tax policy to ensure their needs and particular conditions are taken into account.

An important trend in the reduction of the compliance burden has been the creations so-called one-stop shops whereby individuals and businesses can receive services from several government organizations through a single contact point. The OECD reports such offices or websites can produce significant savings in time and costs for users. The creation of a unique service channel can also highlight areas duplication and overlap so that governments can further streamline their operations. The report further states that one-stop shops can also have an adverse effect on the compliance burden by simply shifting the red tape from one entity to a larger one.

Regulatory tiering is by far one of the most effective ways of reducing the compliance burden. It consists in establishing regulations adapted to the size of businesses through exemptions and varying levels of reporting/filing requirements. For example, a small business may not be required to file as often or maintain such complex books and records.

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Tiering can offer many advantages and have an impact on the compliance however, other considerations such as equitability, efficiency, and compliance must be considered in their implementation.

Governments must also re-examine the way they deliver and communicate new and revised laws and regulations. Transparency and clarity must be closely adhered to in order to ensure businesses and individuals comply with them.

Finally, regulatory flexibility can further reduce the compliance burden. Governments should consider this approach, which can translate into self-regulation based well-established and documented standards.

Regardless of the preferred approach, all governments and tax administrations must continue to make every effort to be more efficient and reduce the compliance burden in order to ensure levels of revenue generation that support the well-being of their populations.

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Case study

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TAX COMPLIANCE COSTING METHODOLOGY

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CONTENTS: Introduction.- 1. General Aspects.- 2. Peruvian Experience in Tax Compliance Cost Reduction Mechanisms.- 3. Costing Methodology of Tax Compliance.- 3.1. Principles of the Methodology for Tax Compliance Costing.- 3.2 Dynamics of the Methodology for Tax Compliance Costing.- 3.3 Tax Compliance Costs (TCC).- 3.4 Cost Function Component Range.- 4. Peruvian Case.- 4.1. Analysis of the Relation between Economic Activity, Taxation Structure and Tax Compliance.- 4.2. Parameters to Release Tax Compliance Costs.- 4.3 Segmentation of the Taxpayer Universe.- 4.4. Procedure for the Application of the Questionnaire.- Conclusions and Recommendations.- Annex No. 1 – Questionnaire.

EXECUTIVE SUMMARY

Tax Compliance Costing Methodology

The search for sustainability – that is, to achieve adequate levels of development – is supported on, among other aspects, in the harmonic relation amongst members of the civil society and the authorities or the State. The dynamic of the tax process does not escape this consideration. This is the reason why interaction costs' fields originate among taxpayers and this causes special interest in tax authorities.

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Taxpayers are interested in incurring the least amount of costs possible when executing actions that allow them to attend completely and timely the provisions stipulated in the tax laws; that is to have optimum performance when arranging their Tax Compliance.

The tax authority, explicitly or implicitly, involves the taxpayer's interests as well and incidentally, regarding the interaction with the same, establishes policies, designs and implements procedures directed to achieve results expected as well as the social acceptance; the latter supported on the agreement between Tax Compliance costs with the expectations of society at large.

Tax Compliance¹ involves aspects of economic and psychological nature expressed in terms of time and money committed to the same.

The quantification of Tax Compliance Costs (TCC) entails the design and application of a methodological framework based on the use of different scientific techniques properly adapted to the characteristics of the environment on which the methodological application will be executed. In this order of ideas, the components of this cost have been defined:

- Compliance Component of submitting the tax return.
- Compliance Component of Paying.
- Compliance Component of the Exactness of the Data Declared.

These three components will enable us to have data and information on taxpayers that will allow us to establish and harmonize tax administration policies with the interests thereof. For this purpose in addition to defining parameters for the release of said costs, define the level of segmentation of the universe of taxpayers and the procedure to be applied to obtain the data.

In the case of Peru, the criteria used to define the segmentation of the universe of taxpayers are: the characteristics of tax compliance, the economic sector of taxpayers and the condition of agent or subject for the effects of the Payment Systems. On the other hand, according to international experience on the calculation of said costs and the recommendations of existing literature it has been determined that the application of a "questionnaire" is the best tool for the release of data in an economy such as the Peruvian. Tax Administration professionals, taking advantage of the expertise, they have in the treatment and analysis of

¹ Pope, Jeff; *The Administrative and Compliance Costs of International Taxation: An Introduction for Research Students*; Department of Economics, Curtin University; Australia.

information as well as in taxpayer attention, must apply this questionnaire. Finally, it is important to mention that in Peru, since the creation of the *National Intendancy of Taxpayer Service* in January 2001, actions have been undertaken which influence the reduction of costs in which taxpayers incur in the process of complying with their tax obligations, developing systems associated with the most frequent and main concerning obligations of taxpayers.

INTRODUCTION

“The existence of taxes has different effects, which imply costs to the economy; some of these are usually “hidden”, because, generally, they have been disregarded from the discussion of policy and tax administration issues. These costs are those in which taxpayers incur because of the mere fact of having to comply with tax laws,”² such as:

- The use of physical and electronic means must be considered when preparing information on compliance with tax obligations relating to tax returns.
- The use of different payment means or instruments available in the market must be considered when preparing information on compliance with tax obligations relating to the payment of taxes.
- Costs incurred in auditing and tax rebate procedures must be considered when preparing information that supports the truthfulness of the returns.

These costs are known as “Tax Compliance Costs.” “The determination of the magnitude of these costs is very important, in terms of the Gross Domestic Product, Fiscal Revenue, and the average income level of the taxpayers analyzed, this enables the determination of the relation between the later and their inclination to evade taxes. In this regard, it is alleged that the higher the compliance costs, it is highly possible that some taxpayer segments, on which these costs fall more regressively, will search for means to stop complying with the provisions of the Taxation Laws.”³

² Marcel Ramírez La Torre, “¿Tenemos alguna idea de cuánto le cuesta a nuestra economía el pago de impuestos?”; CENTRUM Católica, page 1.

³ Ibid

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Most countries of the Northern hemisphere have carried out efforts to Calculate Tax Compliance Costs, and in recent years, this topic has gained relative importance in Latin America. The Peruvian Tax Administration has been implementing mechanisms to reduce these costs for taxpayers; similarly, studies are being commissioned to determine the costs effectively incurred by taxpayers in the tax compliance process. In this regard, the paper herein will cover the following:

The first section defines general aspects on Tax Compliance Costs, their usefulness and components. The second section describes Peru's experience in mechanisms to reduce such costs, stressing on advances made on registration and collection mechanisms. The third section explains the Tax Compliance Costing Methodology, describing its functions and components and the scope of this methodology. Section four analyzes the peculiarities of the Peruvian economic and tax structure, and provides guidelines to apply the methodology explained in section three to the reality of Peru, by allowing the determination of parameters, segmentation and the procedure whereby said costs will be determined. Finally, conclusions and recommendations on tax policy are offered.

1. GENERAL ASPECTS

Taxes are generally a monetary payment that the State demands in the exercise of its empire power, by virtue of a law, to cover expenses required by the compliance with its purposes. The Tax Code rules juridical relations originated by taxation. For these effects, the generic term tax encompasses taxes, contributions and rates.⁴

The taxation normative framework impacts Taxpayers and its observance involves incurring in costs for its compliance, therefore the concern of the Tax Administrations will be directed to avoid adding greater burdens to the tax process through measures and actions that simplify interactions with the tax authority.

Tax Compliance Costs have been defined as those amounts incurred by taxpayers or third parties in observing the demands placed on them according to the respective fiscal structure.⁵

⁴ Tax Code, Legislative Decree N° 773; Norm II, First Paragraph; from 31.12.93.

⁵ Haughton Jonathan; "*Measuring the compliance costs of excise taxation*;" African Economic Policy, Discussion Paper Number 14, December 1998.

The quantification of tax compliance costs is supported on:

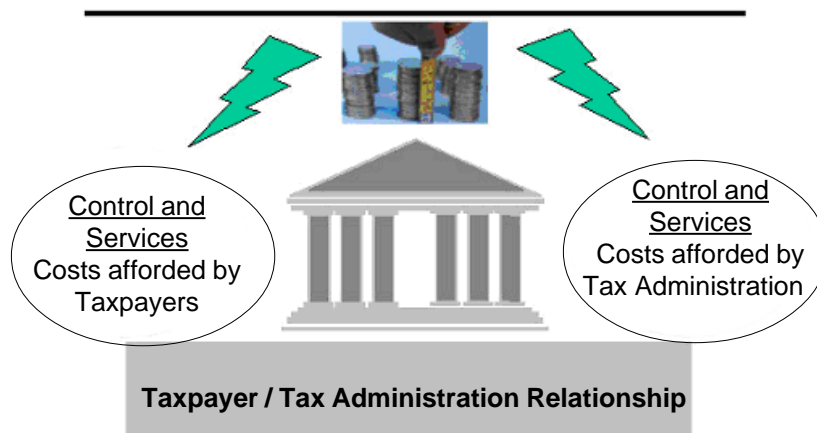
Strategic Use

Refers to the performance of the Tax Administration, regarding its mission and targets foreseen, so that decision-making solves compliance problems and strategic resources are used rationally.

Taxpayer Attention

Refers to the identification of procedures that require improvement and may be generating more regressive effects than those expected; having to reevaluate, redesign the components of the procedures supported by orientation services or through the availability of simplified means or mechanisms.

Tax Compliance



Elective execution of tax operation processes.

Refers to the determination of taxpayer and operational programs for special exams or audits, which allow the generation of relevant impact(s).

Tax compliance, in an ample perspective for cost purposes, comprises the following components:

- Return compliance
- Payment compliance
- Compliance with the exactness of the data submitted

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It also comprises taxpayers' behaviors, regarding the opportunity or the date foreseen by the Tax Authority; it can configure taxpayer levels with:

- Voluntary compliance and on time
- Voluntary compliance and outside the date
- Non-voluntary compliance and outside the date

Tax compliance component costs are related to the amounts incurred in the execution of:

The Operational Process of Information and Orientation and with the respective procedures, directed to acquisition of the knowledge of the legal and penal obligations.

Company management, directed to gathering, grouping data and documents that support the accounting registry for tax assessment on their products, results and employees.

Operational processes of the Return, Correction, Payment, Refund. Furthermore Auditing and Rebate, directed to supply data and information.

Resources used in each Tax Compliance Cost component are grouped in:

- Human Resources
- Infrastructure
- Overhead

To oversee the provisions of the scope of the analysis to quantify Tax Compliance costs, this will contain:

All taxpayers

Operational processes related to the Tax Compliance process:

- Information – Orientation,
- Return / Rectification – Payment / Refund,
- Auditing attention - Rebates
- Company or taxpayer management.
- Monetary amounts related to the resources used for Tax Compliance.

2. PERUVIAN EXPERIENCE IN TAX COMPLIANCE COST REDUCTION MECHANISMS

Considering the relevance of Tax Compliance Costs in the taxpayer's interaction with the Tax Administration, in Peru, the entity in charge of this task –National Superintendence of Tax Administration - SUNAT– has performed during the past years actions that influence the reduction of the costs incurred by the taxpayer in the process of complying with its taxation obligations. In this regard, the creation in January 2001 of the National Intendence of Taxpayer Services, the SUNAT began the comprehensive development of systems associated to most frequent and priority obligations of taxpayers. We specifically refer to the registry system (RUC – Taxpayer Master File), to the collection system and other mechanisms.

The Taxpayer Master File (RUC).

The Taxpayer Master File is the computer registry of SUNAT that contains identification and tax obligation data of taxpayers of the taxes managed and/or collected by SUNAT, pertaining to information related to their economic activities, as well as the information of the individuals responsible. In this regard, the RUC responds to a business model designed bearing in mind the taxpayer's life. In other words, it has been under constant analysis to perfect the same, therefore, substantially reducing the requirements to carry out proceedings, as well as attention times.

Currently to perform the proceedings to obtain the RUC number, the applicant does not need fill any form or pay for this service; the individual just has to come to the offices and present its National Identity Document and declare (dictate), the necessary complementary data to obtain the registry. Similarly, with the purpose of eliminating the time that it used to take to confirm the domicile through a notice, this process has been replaced by the presentation of payment receipts for utilities, and with this the individual can carry out the proceedings to obtain its RUC in 20 minutes time on average, and is allowed to request the printing authorization for payment vouchers and, with this begin to operate.

These proceedings entail some additional requirements in the case of bodies corporate, which are required to present the corresponding public deed or attestation and a copy thereof. In general, when the process justifies the presentation of the documentation that supports the proceedings, the original and the presentation of a simple copy is required.

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The Collection System.

Constant innovations have been carried out in the return filing and payment processes directed not only to improve control, but also mainly to simplify proceedings, reduce attention times and minimize compliance costs.

In this manner, in contrast with some Tax Administrations, such as the Tax Administration of Costa Rica, Dominican Republic or Nicaragua, we can mention that in Peru taxpayers have access to return forms free of charge. Furthermore, in Peru there are three types of forms to submit returns, according to the taxpayer segment, being able to use paper forms, computer forms called PDT (Telematic Return Program) and virtual forms called "Easy Payment", which are submitted at the offices of the most important banks (approximately 1,000 bank agencies). However, it is important to mention that currently 80% of return and/or payment forms received are electronic.

Paper forms are used by small taxpayers and those individuals who, while they do not have a taxpayer master file number (RUC) they have the obligation of making some kind of payment. Virtual forms are for those taxpayers that do not perform very complex operations, in this case, they are not required to fill forms, and they just have to dictate the data to the receiver. Finally, there is also the Telematic Return Program (PDT), which is a software developed and permanently updated by SUNAT, which is distributed free of charge, by downloading it through the web or through CD's that are reproduced specially for this purpose, and are distributed at the 55 attention points that the Tax Administration has nationally.

Other Mechanisms.

To reduce or eliminate compliance costs incurred by taxpayers' value added services developed and/or implemented by SUNAT have been added to facilitate tax compliance:

Decentralization. With the purpose of reducing transportation costs, as well as the time involved in traveling to comply with tax obligations, SUNAT has 55 attention points strategically located throughout the national territory. Of these, 32 are modern Taxpayer Service Centers, which provide comfort and security to taxpayers when complying with their obligations.

PDT – Internet Booths with personalized assistance. To increase the use of telematic means, which does not imply greater costs, SUNAT is offering free of charge specially equipped computers, to taxpayers, and with the assistance of SUNAT personnel, they can prepare their returns or have access to the virtual services put at their disposition through Internet.

Submitting returns through Internet. It is important to mention that approximately one third of the returns received monthly are sent through Internet, which means that not only greater coverage in space and time, but transaction costs are reduced for taxpayers, because they do not have to move anymore.

Access to information. SUNAT exploits the three attention channels that it has available, to take the information required by taxpayers, as well as placing at their disposition the possibility of performing transactions. It is important to mention that through the web, SUNAT places at the taxpayers' disposition, information modules that have been specially developed, and has implemented a series of interactive inquiries that are frequently used by taxpayers to make sure that the economic transaction that they are executing is being performed with a company formally registered with SUNAT, among others.

It must be underlined that the service provided through the telephone inquiries switchboard, is considered the easiest to access and the less expensive (SUNAT applies the shared cost system, through which the taxpayer only pays for the cost of the local call). Through this service, taxpayers obtain the most varied and precise information, and with this, taxpayers avoid resorting to third parties to comply with their obligations, because SUNAT puts it at their disposition with greater ease.

Similarly, SUNAT attends inquiries in person, which represents a flow of monthly attention services nationally, which shows the great reception this has, and avoids information access costs to taxpayers.

With this same purpose, orientation talks are provided, which are specially designed to attend the demand. These talks are performed with mass attendance (over 500 persons) or specific attendance (at each Taxpayer Service Center, presentations are made to 40 – 60 persons per center).

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Internet Public Booths. Peru has developed a phenomenon that has allowed high Internet access rates at low costs. This work is directed to legally register these companies and give them the tools that allow them to provide better service, SUNAT has these micro and small businesses registered and permanently trains them on the virtual services that SUNAT provides. In this manner, at a reduced cost, and through a familiar mechanism, compliance with tax obligations is facilitated, consequently reducing compliance costs.

3. COSTING METHODOLOGY OF TAX COMPLIANCE

Considering the importance of Tax Compliance Costs and the measures taken by the Peruvian Tax Administration for the reduction and efficiency thereof, it is important to define a methodology to be able to determine its monetary value and through its analysis formulate the viable mechanisms that reduce such costs in processes where greater difficulties are located. With such purpose, we describe hereinafter in detail the following relevant aspects:

3.1. Principles of the Methodology for Tax Compliance Costing.

Flexibility in its Application.

The methodology defines the general guidelines to follow to prepare and present tax compliance costs at different stages.

Data and Information Comprehension and Auditing.

Data and information used for the methodology, as well as data and information generated as from the use thereof must be supported in the database built with the responses obtained from taxpayers. Similarly, data and information must be easily understandable by each interlocutor involved.

Adaptable to the Environment.

The current version of the phases of the tax compliance methodology may vary in function of the needs of the environment and the Administration.

3.2. Dynamics of the Methodology for Tax Compliance Costing

- Identification of tax compliance costing and data.
- Identification of a macroeconomic profile of the environment.
- Identification of the universe, segments and representative samples.
- Identification and selection of reliable means available to assign costs to data gathering.
- Identification of the parameters to quantify the certainty of the data gathered.
- Design of the questionnaire
- Design of the procedure for the application of the questionnaire.
- Training for agents that will apply the means selected for data gathering.
- Design of the procedure to tabulate responses.
- Data chart analysis.
- Quantification of tax compliance costs.
- Analysis of tax compliance cost results.

3.3. Tax Compliance Costs (TCC)

The quantification of Tax Compliance Costs (TCC) is a complex process to determine, since data and information used belongs to the taxpayer area, and the same have inherent and heterogeneous characteristics. Furthermore, the factors and conditions that determine the operation of each economic sector must be considered. Regarding this scenario, the respective modeling is pertinent, through a cost function that allows the approximation of the value of the relevant components, the same which for the purposes of the work paper herein supposes a multivariable linear function for tax compliance costing; this focus allows the achievement of a database to corroborate the defined supposition.

3.3.1 Cost Function

Cost function is directed to the approximation of the monetary amount incurred by the Taxpayer in the Tax Compliance process. For such purpose, important events of the tax process are defined, such as the payment of taxes and the truthfulness of the return, therefore the cost function will be determined by the following components:

- Return Compliance Component (CD).
- Payment Compliance Component (CP).
- Exactness of the Data Submitted in the Return Component (CE).

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The execution of each component of the Tax Compliance Cost function is related to the characteristics of the actions of the taxpayers; in this order of ideas, compliance may be executed:

By observing, the parameters contained in the tax normative framework, that is, the Taxpayer willingly or unwillingly – when the tax authority intervenes – performs the actions of the tax process; within the terms determined by the tax authority or outside the same.

Taking into consideration the characteristics of the actions of the taxpayers, from an optimum perspective – voluntary compliance and within the defined term – the cost of the Tax Compliance components will be less in the event that any of these two actions are performed unwillingly and/or beyond the term established.

In this regard, the Tax Compliance Cost function must reflect the amount for each component according to the characteristics of the actions executed by the Taxpayer.

Considering the elements and the characteristics of the actions of the taxpayers, the cost function is represented in the following manner:

$$TCC = \varphi \text{ Tax Compliance Components} \\ TCC = (CD + CP + CE).$$

where:

TCC = Tax Compliance.

CD = Return Compliance Component.

CP = Payment Compliance Component.

CE = Exactness of the Data Submitted in the Return Component.

The structure of the Tax Compliance Costs function allows to:

- Identify cost component structure of– Return, Payment, Exactness – according to the level of concentration of the cost of tax compliance.
- Identify the impact of the procedures of the tax authority with Tax compliance cost components.
- Establish spaces for joint tasks – Taxpayer, tax authority – that optimize the results expected for each, considering the characteristics according to the relevant segmentation.

Results obtained as from the tax compliance cost function must be considered by taking into consideration the following limitations:

- Quality control, exactness and timeliness of data, from the tax authority.
- Homogenization of the value of the resources and procedures by taxpayers.
- The taxpayer's attitude or predisposition towards the Tax Authority.
- The characteristics of the design for data gathering.

It is important to describe and analyze the components of the cost function with the purpose of clearly determining the scope of the procedures involved, the resources used, and their respective value.

3.3.2 Cost Function Components

In this order of ideas the Tax Compliance cost function components are defined according to the execution of their procedures:

3.3.2.1 *Return Compliance (CD)*

The Return Compliance component is defined as the behavior displayed by the taxpayer in regards to the tax return provided for the tax normative framework. Said return considers the use of physical and electronic means.

3.3.2.2 *Payment Compliance (CP)*

The payment compliance component is defined as the behavior displayed by the taxpayer in regards to the cancellation of its economic obligations in framework of the tax process. This cancellation considers the use of different payment means or instruments available in the market.

3.3.2.3 *Compliance with the Exactness of the Data Submitted in the Return Component (CE)*

The compliance with the Exactness of the Data Submitted in the Return Component is defined as the behavior displayed by the taxpayer in regards to the support of the data submitted in the tax return established in the tax normative framework. It is highly likely that the will increase in cases of Auditing and Examination processes performed by the Tax Authority.

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3.4 Cost Function Component Range

Each Tax Compliance component explained above, is related to the execution of actions linked to procedures executed by the Taxpayer.

The execution of the Taxpayer entails the use of resources – Human Resources, Overhead – and the related monetary amount; and the ordered grouping by each one allows the approximation for each component; the cost accumulation of each cost component forms the Total Tax Compliance Cost.

It is important to outline tax procedures, organizational procedures and other components that are inherent to the Tax Compliance Cost component; in this regard presents the following detail:

Component: Return Compliance	
Tax Procedures	Information and/or Orientation operational procedure. Tax return operational process.
Organizational Procedures	Accounting information and registry management related to taxes on products, results and employees. Internal procedures to gather information from operations subject to taxes.
Others	Internal procedures inherent to the Return.

Component: Payment Compliance	
Tax Procedures	Information and/or Orientation operational procedure. Tax payment operational procedure.
Organizational Procedures	Financial management for tax payments. Logistics management for tax payments.
Others	Internal procedures inherent to the Payment.

Component: Exactness of Data Submitted in the Return	
Tax Procedures	Information and/or Orientation operational procedure. Correction operational procedure. Auditing operational procedure. Rebate operational procedure. Tax Refund operational procedure.
Organizational Procedures	Internal procedures for the flow of documents supporting the accounting - tax registry.
Others	Internal procedures inherent to the Exactness of the Data Submitted in the Return.

4. PERUVIAN CASE

4.1. Analysis of the Relation between Economic Activity, Taxation Structure and Tax Compliance

The Peruvian economic structure, expressed through the percentage contributed by each sector of the Gross Domestic Product (GDP.), should give us an idea of the collection structure pursuant to the economic sector. However, certain distortions occur in the tax system, such as tax exemptions, the presence of a high level of evasion in determinate sectors, among others; which jointly with the individual characteristics that each sector has, result in an important gap between the amounts collected by each sector and their contribution to the added value of the economy. For 2003, the GDP according to economic sector presents the following percentage structure:

Table N° 01

GDP Percentage Structure for 2003*

Sector	Year 2003
Agriculture	8.60
Fishing	0.79
Mining	5.31
Manufacturing	18.1
Construction	6.33
Commercial	16.51
Services	44.35
Total	100.00

*The average result for 2003 is taken with the purpose of avoiding seasonality problems.

Source: Instituto Nacional de Estadística e Informática (INEI).

TOPIC 2.1

Regarding total Taxpayers registered according to economic activity for the case of the Tax Administration of Peru (SUNAT), at December 2003; the following is considered:

- Economic activity is information that is submitted by the taxpayer.
- Taxpayers do not necessarily have the same economic activity classification every year, since they update the information on their economic activity when they change their business, and in some cases, they modify their economic activity without changing the type of business.
- Collection statistics gathered by SUNAT⁶ only state the taxpayer's main activity, which corresponds to the activity that generates the largest income per sales.

This produces the following:

Table N° 02

**Registered Taxpayers Percentage Structure
at December 2003**

Sector	%
Agriculture	2.23
Fishing	0.15
Mining	0.15
Manufacturing	4.78
Construction	5.92
Commercial	18.02
Services	68.76
Total	100.0

Source: SUNAT, Tax Note, Table N° 35,
Taxpayers Registered by Economic Activity; Lima, Peru.

⁶ SUNAT; Tax Note. Chart N° 1 – Revenues Collected by SUNAT – Internal Taxes by Taxpayer Size; Lima, Peru.

It is important to mention in this point that the taxpayer universe experiences concentration at December 2003 in the segment that comprises Small and Mid-size Taxpayers (99.45%). However, the participation in the collection of this kind of taxpayers for 2003 represents 12.44%. It must be mentioned that the amounts collected for the Main Taxpayers does not necessarily represent the tax burden that these taxpayers bear, to a certain extent they pay in their capacity as tax debtors, in some cases as withholding agents or because they receive third party's obligations.

Table N° 03

**Internal Tax Collection Percentage Structure
According to Economic Sector for 2003.**

Sector / Period	Year 2003
Agriculture	1.37
Fishing	0.69
Mining	8.67
Manufacturing	35.52
Construction	3.68
Commercial	12.71
Services	37.36
Total	100.00

Source: SUNAT; Lima, Peru.

As from the data presented, it is stated that Tax Compliance is the result of the behavior that the Taxpayer configures as from the perception regarding the effects that the different factors have, making the gap between the percentage structure of the generation of value added by economic sector (Structure % GDP) and the percentage structure of the Collection evidence different treatment schemes and consequently different Tax Compliance behaviors; therefore it is highly likely that Tax Compliance Costs will experience difference amongst sectors. This approximation acquires relevance when quantifying Tax Compliance Costs, therefore the segmentation of the Taxpayer universe is advisable: Tax Compliance characteristics, economic sector of the taxpayer, the size of the taxpayer, tax regime to which it belongs, and the condition of agent or subject for the effects of the Payment Systems.

4.2. Parameters to Release Tax Compliance Costs

It is important to identify the following elements to quantify Tax Compliance Costs:

- Identification of the Taxpayer's behavior. According to the Tax Compliance characteristics (Voluntary, On Time, Non-voluntary, Not on time).
- Determination of the cost object. For this objective taxpayers will be classified according to the Tax Regime and alternatively according to the Tax.
- Identification of resources used. Refers to the identification and grouping of human resources, infrastructure resources and overhead.
- Definition of relevant data. Relating to the amounts accrued for every resource for the specified period.
- Establish mechanisms for data gathering. Determine the manner in which data will be obtained, considering the type of data and availability.
- Identification of data sources. Determine who will provide us the necessary data, identifying data availability.
- Identification of the person responsible. Relating to the assignment of data gathering tasks.
- Definition of the cost amount. Grouping costs by Tax Compliance components and according to the cost object, by adding resources for each component.

The following table presents a description for each component abovementioned:

**Table N° 04
Parameters to Quantify Tax Compliance Costs**

Cost Objective	Resources	Relevant Data	Data Gathering Mechanism	Source	Responsible	Cost
Tax Regime / Tax	Human Resources	Consultant / external tax advisor.	Survey / Questionnaire Annex N° 01 CD: Question N° 5 CP: Question N° 8 CE: Question N° 11	Taxpayer	Auditors	Amount
		Consultant / internal tax advisor.				Amount
		Consultant / external accounting advisor				Amount
		Consultant / internal accounting advisor				Amount
		External accounting personnel.				Amount
	Infrastructure	Internal accounting personnel	Survey / Questionnaire Annex N° 01 CD: Question N° 6 CP: Question N° 9 CE: Question N° 12	Taxpayer	Auditors	Amount
		Family Member / Friend.				Amount
		Other (Specify).				Amount
		Machinery and/or equipment				Amount
		Depreciation or Rental.				Amount
Overhead	% of Real Estate Depreciation or Rental.	Financial expense linked to Tax Compliance. Transportation and other similar. Outsourcing. Others.	Taxpayer	Auditors	Amount	
	Telephone lines, computer network, Internet, Radio communication.				Amount	
	% of Depreciation for furniture and household goods.				Amount	

Note:

CD = Return Compliance.

CP = Payment Compliance.

CE = Exactness of Data Submitted in the Return Compliance.

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4.3 Segmentation of the Taxpayer Universe

Considering that it is highly likely for Tax Compliance Costs to be different for all Taxpayers, the following criterion has been defined:

Segmentation Criteria		Taxpayer Segments
Tax Compliance Characteristics	Voluntary On Time	Taxpayers with Voluntary and On time Compliance. Taxpayers with Voluntary and Not on Time Compliance. Taxpayers with Non-voluntary compliance and not on time.
Economic Sector	Agriculture Fishing Mining Manufacturing Construction Commercial Services	Taxpayers of the Agriculture Sector. Taxpayers of the Fishing Sector. Taxpayers of the Mining Sector. Taxpayers of the Manufacturing Sector. Taxpayers of the Construction Sector. Taxpayers of the Commercial Sector. Taxpayers of the Services Sector.
Taxpayer Size	Large Taxpayers Small and Mid-size Taxpayers.	Taxpayers PRICO Taxpayers MEPECO
Tax Regime	General Regime Special Income Regime. Sole Simplified Regime. Fourth Category Income. Definite Regime. Overdue Regime. Temporary Regime. Perfection Regime. Customs Operations Regime. Special or Exception Customs Destination Regime. Others.	Taxpayers registered in more than one regime.
Payment System Agent	Informing Agent Payment System Agent (SP)	Taxpayer Informing in the Annual Return Operations with Third Parties (DAOT, in Spanish). Informing Taxpayer PDT Notaries Taxpayer SP Agent: Receiving Taxpayer SP Agent: Withdrawals Taxpayer SP Agent: Withholding

4.4. Procedure for the Application of the Questionnaire

With the purpose of executing data gathering in order, the following actions are proposed:

Aspects	Action to Execute / Responsible
Of the Taxpayer Universe	Segmentation according to criteria. Sample size according to Taxpayer segment. Random selection of Taxpayers to survey according to the segment.
Of the Application of the Questionnaire	Identification of the questionnaires with Taxpayer segments.
Supplying the Questionnaire	Auditors are trained to apply the Questionnaire, according to the timetable. Questionnaires are delivered with a presentation letter and an information request.
Auditors gather questionnaire.	Questionnaires are collected according to timetable.
Answers are tabulated	Individuals in charge of the costs' study gather responses for each Question on the Questionnaire.
Determination of Tax Compliance Costs by segment.	Individuals in charge of the costs' study.
Information and costs analysis	Individuals in charge of the costs' study.
Report on Tax Compliance Costs	Individuals in charge of the costs' study.

5. CONCLUSIONS AND RECOMMENDATIONS

The measurement of Tax Compliance Costs allows the Tax administration to have indicators directed to determine the level of complexity of the tax system applied in the country, as well as the level of efficiency of tax administrative procedures. Results obtained through indicators and the particular analysis of each taxpayer segment will permit the Administration implement the necessary measures to reduce inefficient costs generated in the Tax Compliance process.

The execution of mechanisms by Tax Administrations is recommended and the same should enable the determination of such costs for taxpayers, so that in the mid-term and long term a dynamic analysis of the results, including economic policy variables such as the perception of the effects of changes in the tax policy are analyzed, by establishing procedures that have had positive as well as negative effects in the evolution of Tax Compliance Costs.

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The following recommendations are a result of the conclusions arising from this document and the limitation of a preceding paper on the Calculation of Tax Compliance Costs in our country, the same are based on the conceptual framework found in the literature:

1. Simplify tax legislation and to reduce amendments to the law. Special regimes, exemptions or benefits should be eliminated, since they make the control of the tax administration as well as the understanding of the law by taxpayers more difficult¹.
2. Of the methodological proposal presented, for the Peruvian case, is to expect that the taxpayer that complies voluntarily with its tax obligations incurs in smaller compliance costs that the one that does not pay or declares its obligations in date, therefore should add the costs to enter to the processes of collection and inspection of the tax administration (compulsory recovery, installments, etc.).
3. In Peru, taxpayers grouped by segmentation variables face different compliance costs.
4. Tax Administration professionals must apply the "Questionnaire", by taking advantage of the "know-how" they have in the treatment and analysis of the information as well as on the taxpayer. The Administration has information on the taxpayer, therefore it can determine the adequate size of the sample, as well as the type of taxpayer to which the survey will be addressed, this somehow guarantees quality, exactness and timeliness in obtaining data and homogenization in resource valuation and in the procedures used by the taxpayer for Tax Compliance.

¹ These conclusions are frequent in the Public Economy Theory. See Bibliography.

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Annex N° 01

Questionnaire

July , 2004.

Dear Taxpayer,

We kindly request that you provide collaboration, within the framework of a large investigation related to taxation in the country. At SUNAT we are committed to the better understanding of the expenses faced by taxpayers, who like You, comply with the tax norms and honor your obligations.

Wishing to achieve this understanding, this will allow us to have a more rational fiscal structure and simple proceedings. As you may know, this is the beginning of an ample and complex task. In this regard, we have prepared a Questionnaire, and the same is directed to gather essential aspects from the primary source. Data collection will only be for the year 2003 and with monetary amounts – in new soles – directly related to Human Resources, Infrastructure, and Overhead; used during the Return Filing Stage, Payment and Exactness of data declared.

In no event amounts paid for taxes or sanctions must be considered.

The nature of the answers required is general. The entire Questionnaire is designed to maintain the anonymity of the person surveyed, given the nature of the general responses that you will provide to us.

It is important to mention that your answers will be kept in absolute reserve and will only be used for general purposes as explained above.

We deeply appreciate your cooperation.

Sincerely,

SUNAT

TOPIC 2.1

Which is the economic sector of the main economic activity performed by your company?

(Select only one option, by placing an “x”)

Box to Mark	Economic Sector
	Agriculture.
	Fishing
	Mining
	Manufacturing
	Construction
	Commercial
	Services

Which is the business scope of the main economic activity performed by your company?

(Select only one option, by placing an “x”)

Box to Mark	Business scope description
	Internal scope
	Foreign trade
	Foreign trade and Internal scope

Which is your company classification according to taxpayer size?

(Select only one option, by placing an “x”)

Box to Mark	Business scope description
	Large taxpayer.
	Small or Mid-size taxpayer.

Which is the internal tax and/or customs regime in which your economic activity is classified?

(Select all that main pertain; by placing an “x”)

Box to Mark	Name of the Regime
	General Regime.
	Special Income Regime (RER)
	Sole Simplified Regime (RUS)
	Fourth Category Income.

TOPIC 2.1

	Definite Regime.
	Outstanding Regime.
	Temporary Regime
	Perfection Regime
	Customs Operations Regime
	Special or Exception Customs Destination Regime.
	Other (specify):

What service do you use to comply with your tax return filing obligations and what is the annual amount for 2003, in new soles used for each service used?

(Select the service (s) used and write the amount requested)

Service Description	Amount for 2003, New soles.
Consultant / external tax advisor.	
Consultant / internal tax advisor.	
Consultant / external accounting advisor	
Consultant / internal accounting advisor	
External Accounting Personnel	
Internal Accounting Personnel	
Family Member / Friend	
Other (specify):	

According to the type of infrastructure that you use to comply with your tax return obligation, what is the annual amount for 2003, in new soles per type of infrastructure used?

(For every type of infrastructure used place the amount requested)

Infrastructure Description	Amount for 2003, New soles (*)
Machinery or equipment depreciation or rental.	
Real estate depreciation or rental	
Telephone lines, computer network, Internet, Radio communication.	
Furniture and household goods depreciation or rental.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

TOPIC 2.1

According to indirect costs that you use to comply with your tax return obligations, what is the annual amount for 2003, in new soles for per type of infrastructure used?

(For every indirect cost write the amount requested)

Indirect Costs Description	Amount for 2003, New soles (*)
Transportation and similar.	
Outsourcing	
Others.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

What service do you use to comply with your tax obligations and which is the annual amount for 2003, in new soles used for each service used?

(Select the service (s) used and write the amount requested)

Service Description	Amount for 2003, New soles
Consultant / external tax advisor.	
Consultant / internal tax advisor.	
Consultant / external accounting advisor	
Consultant / internal accounting advisor	
External accounting personnel	
Internal accounting personnel	
Family Member / Friend	
Other (specify):	

According to the type of infrastructure used to comply with your tax obligations, what is the annual amount for 2003, in new soles for per type of infrastructure used?

(For every type of infrastructure used place the amount requested)

Infrastructure Description	Amount for 2003, New soles (*)
Machinery or equipment depreciation or rental.	
Real estate depreciation or rental	
Telephone lines, computer network, Internet, Radio communication.	
Furniture and household goods depreciation or rental.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

TOPIC 2.1

According to indirect costs that you use to comply with your tax return obligations, what is the annual amount for 2003, in new soles for per type of infrastructure used?

(For every indirect cost write the amount requested)

Indirect Costs Description	Amount for 2003, New soles (*)
Financial expenses relating to tax payment compliance obligations.	
Transportation and similar.	
Outsourcing	
Others.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

What service do you use to comply with the exactness of the data of your tax obligations and what is the annual amount for 2003, in new soles used for each service used?

(Select the service (s) used and write the amount requested)

Service Description	Amount for 2003, New soles (*)
Consultant / external tax advisor.	
Consultant / internal tax advisor.	
Consultant / external accounting advisor	
Consultant / internal accounting advisor	
External accounting personnel	
Internal accounting personnel	
Family Member / Friend	
Other (specify):	

According to the type of infrastructure that you use to comply with the exactness of the data of your tax obligations, what is the annual amount for 2003, in new soles per type of infrastructure used?

(For every type of infrastructure used place the amount requested)

Infrastructure Description	Amount for 2003, New soles (*)
Machinery or equipment depreciation or rental.	
Real estate depreciation or rental	
Telephone lines, computer network, Internet, Radio communication.	
Furniture and household goods depreciation or rental.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

 TOPIC 2.1

According to indirect costs that you use to comply with the exactness of the data of your tax obligations, what is the annual amount for 2003, in new soles per type of infrastructure used?
 (For every indirect cost write the amount requested)

Indirect Costs Description	Amount for 2003, New soles (*)
Transportation and similar.	
Outsourcing	
Others.	

* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

Case study

TOPIC 2.1

MEASURING THE ADMINISTRATIVE BURDEN

Willem-Jan Huijssoon

Compliance & Enforcement Department
Directorate General of the Tax and Customs Administration
(The Netherlands)

CONTENTS: 1. Introduction.- 2. The Area of Tension Concerning Compliance Costs.- 3. The Definition of Administrative Burden.- 4. Measuring the Administrative Burden.- 4.1 Introduction.- 4.2 The quantity.- 4.3 The price.- 4.4. Measuring.- 4.5. The size of the administrative burden.- 4.6 Estimates of proposed amendments.- 5. Concluding Remarks.

1. INTRODUCTION

Some ten years ago the first steps were taken in the Netherlands aimed at reducing the compliance costs for businesses caused by the various laws and regulations. At first, the aim to reduce the administrative burden on enterprises only concerned the levy of taxes, but in the course of time it extended to a wider discussion covering all national and local laws and regulations. Following the initial measures to reduce the compliance costs, proposals in this field increasingly focused on targets that could be expressed by a reduction percentage. The present Dutch cabinet's intention to reduce the compliance costs by a quarter towards the end of 2007 as compared to the situation on December 31, 2002 is the latest step in this process.

TOPIC 2.1

Formulating a goal in terms of percentage requires a measuring instrument in order to assess to what extent the intended reduction has been realised. In the Netherlands, such a measuring instrument was found in the Standard Cost Model. This paper describes how the Standard Cost Model works. Prior to this explanation, the following paragraphs discuss the role of compliance costs in the process of levying and collecting taxes and provide an explanation of the used definition of compliance costs.

2. THE AREA OF TENSION CONCERNING COMPLIANCE COSTS

Tax administrations require information for an accurate execution of their task; levying and collecting taxes. One could say that tax administrations are more or less nothing other than information processing institutions. The collected data forms the input that results in an output consisting of decisions on the rate of taxes due.

The required information may come from a variety of sources. First, there is the taxpayer who, by means of his tax returns, must provide insight into his financial situation and the resulting financial obligations. Second, the tax administration may also obtain information from parties other than the taxpayer, which information can be used for scrutinizing the taxpayer's financial situation. Without this information it would be impossible to levy and collect taxes. However, a taxpayer who has to collect information for his tax records needs to put in time and energy. With regards to the business community, this means that entrepreneurs can spend less time on their actual business operations. In the 1980s and the 1990s, this led to a discussion in the Netherlands on the costs that enterprises have to make for performing these actions. The idea was that in order to give enterprises more time to focus on their business operations, it would be necessary to limit as much as possible the time required to meet every kind of statutory obligation.

This resulted in an area of tension between the legislator and the tax authorities. On the one hand information obligations are essential to ensure a correct levy and collection of taxes, while on the other hand the aim was to reduce these obligations as much as possible in order to give companies more room to compete. This area of tension found its political translation in the setting of objectives for the reduction of the administrative burden. For measuring the progress made in the implementation of the set tasks, a definition of the administrative burden (as most relevant part of the compliance costs) was needed. As said

before, monitoring the achieved results also required a measuring instrument: the Standard Cost Model.

3. THE DEFINITION OF ADMINISTRATIVE BURDEN

In the Netherlands, administrative burden has been defined as the costs incurred by businesses in meeting their obligations imposed by government under the various laws and regulations. This covers the collecting, processing, recording and storing of information and making this information available for inspection.

The definition contains a number of relevant elements:

- Only the costs incurred by *private enterprise* are taken into account. For example, the wage administration costs of an ICT company are regarded as administrative burden but the wage administration costs of the Ministry of Finance are not. The costs incurred by private persons –e.g. an employee filling in his or her income tax return– are also not regarded as an administrative burden for businesses¹ ;
- It should concern the *costs* of meeting administrative obligations. This means that the administrative burden is therefore expressed in money. This particularly involves labour costs. Overhead costs made in connection with the work performed are also considered to be administrative burdens. For example, the costs of using computers and sending documents and forms by mail. Companies usually contract out their administrative work to administration and accounting firms. If so, the costs incurred in this respect are also regarded as an administrative burden.
- It should concern the costs made to meet *information obligations*. Costs of meeting information obligations are distinguished from other costs that result from laws and regulations. For example, the law may stipulate that certain safety precautions have to be met in respect of installations. The costs incurred in taking these safety measures are not regarded as an administrative burden. However, the costs made by the entrepreneur when reporting

¹ The present cabinet also formulated a task for the reduction of the administrative burden for private persons. However, the setting of this task bears no relation to the efforts to reduce the administrative burden for private enterprise. Coordination takes place by the Ministry of the Interior and Kingdom Relations whereas the reduction of the administrative burden for private enterprise is coordinated by the Ministry of Finance and the Ministry of Economic Affairs.

TOPIC 2.1

on the measures taken, do fall under the term administrative burden. Also the costs resulting from the statutory obligation to provide certain information to parties other than the government are considered an administrative burden. For example, stating the VAT on invoices sent to a client in accordance with the *Wet op the omzetbelasting* (Dutch Turnover Tax);

- It should concern the costs resulting from *government* laws and regulations. In the Netherlands, for the purpose of reducing the administrative burden, the government is understood to comprise both national and local government authorities;
- It should concern the costs incurred while *collecting, processing, recording, storing and making available* information. In fact, all costs involved in actions that have to be performed, either actively or passively, in order to make information available to the government, are considered to be an administrative burden.

4. MEASURING THE ADMINISTRATIVE BURDEN

4.1 Introduction

The Standard Cost Model has been developed to express the administrative burden imposed by the Government on business, in terms of money. The model is based on an old and simple economic formula:

$$\text{administrative burden} = Q (\text{Quantity}) * P (\text{Price})$$

With this formula, the total administrative burden can be expressed in euros. Subsequently, if the effects of the reduction proposals on the Price and/or Quantity are known, it can be calculated for each proposal how much the reduction of the administrative burden will be. The elements of the formula are further examined in the following paragraphs.

4.2 The Quantity

Fiscal legislation stipulates that businesses must provide certain information or make this information available for inspection. To meet this obligation, entrepreneurs must perform a number of actions or have these performed. Performing these actions takes time. The term 'Quantity' as used in the formula for calculating the administrative burden

is expressed in time. First, this time needs to be determined for each individual entrepreneur. Next, it must be determined how many entrepreneurs must perform a specific action. The quantity can then be calculated by multiplying the time required for each activity by the number of entrepreneurs that must meet the obligation. Expressed in a formula as:

$$Q \text{ (Quantity)} = \text{time per entrepreneur} * \text{number of entrepreneurs}$$

4.3 The Price

As stated earlier, entrepreneurs make costs to meet their administrative obligations. They must perform these tasks themselves or hire staff to carry out these tasks for them. Another option is to contract out certain tasks to a third party, for example an administration or accountancy firm. To determine the price of carrying out specific administrative tasks in the Standard Cost Model, the costs incurred by the entrepreneur for performing these actions must be known. This makes it necessary to determine hourly fees for the (internal or external) staff responsible for performing the administrative tasks in question. Dependant on the complexity of the actions that must be performed, a differentiation can be made in those hourly fees. In Dutch practice, such a distinction is made based on the level of education of the person performing the concerned task.

If an entrepreneur performs the action himself, or hires staff to do this, the costs of using office space, computers and sending documents and forms by mail, must also be included.

In practice, these costs are discounted by adding a supplement in terms of a percentage to the hourly fees of the staff charged with the performance of the actions.

4.4 Measuring

The formula used for calculating the pressure of administrative burdens as described above, stands out because of its simplicity. However, the practice of measuring proves not to be that simple. The measuring is not done by the Tax Administration itself but has been contracted out to a specialised external office.

TOPIC 2.1

The first stage of the calculation process consists of making an inventory of the actions to be performed by entrepreneurs under the applicable laws and regulations. Legislation is more or less 'translated' in a sort of scenario that the entrepreneurs follow when applying the laws and regulations concerned. The steps to be taken include the following specific components:

- collecting information;
- making calculations;
- recording the calculated data, for example in the company's administrative records or on a form;
- checking the performed actions;
- sending in the data and/or filing the data.

After a scenario has been laid down for each component of the statutory regulation, it must be determined for each action how much time it takes to perform the concerned action, how many entrepreneurs must perform the action and how many times per year the action must be performed.

Different methods are used to determine the time it takes to perform a specific action. In most cases, a survey held by the research bureau among a representative group of businesses will suffice. In this survey, the businesses are requested to state how much time they require to perform the actions listed in the above scenario. The average time it takes to perform a specific action is determined on the basis of the information obtained by means of the survey. In the Standard Cost Model, however, the time required to perform a number of actions has been set beforehand, without conducting a further inquiry. For example, the time it takes to send a form has been set in principle at one minute.

In some cases, a survey of businesses is not considered accurate enough to be able to determine the time required to perform a specific action. This mainly involves situations in which an action is performed with a very high frequency. As regards this type of action, a slight deviation of the determined required time, could lead to a substantial difference in the size of the administrative burden caused by the action concerned.² For this reason, stopwatch measurements are

² A fine example is the calculation of the administrative burden involved in including the Value Added Tax in an invoice sent to a client. Frequency research showed that approximately 420 million VAT invoices are sent annually. In case of an hourly fee of • 25, one minute extra for the action "calculating and including VAT in an invoice" would lead to an additional administrative burden of • 175 million.

used to measure the time required to perform such actions. During these measurements, persons charged with the tasks concerned are observed while a stopwatch is used in order to determine how much time it takes for them to perform the actions.

In most cases, the administrative actions that businesses must perform under the different tax laws and regulations, will result in a report to or contact with the Tax Administration. For example, administrative actions will generally result in filing a tax return. This means that the computer systems of the Tax Administration will be able in most cases to show the frequency with which specific actions are performed. This information is used to determine the frequency of the various concerned actions. In cases where the Tax Administration systems cannot provide the required information, frequency is also determined on the basis of the surveys of the entrepreneurs.

For each statutory regulation, all information thus gathered is filed together in spreadsheets by the research bureau. The total administrative burden can be calculated by adding up the administrative burden involved in each statutory regulation. The report is not considered final until so-called expert panels have validated it. An expert panel consists of representatives from the business community and the Tax Administration. They have been selected on the basis of their expertise in the field of a specific fiscal regulation. The outcome of the zero measurement is presented to the panel asking whether the panel, on the basis of its knowledge and experience, finds the presented figures sufficiently plausible. If the panel does not agree with the figures, the findings of the report may be reviewed or a further inquiry may be conducted.

4.5 The size of the administrative burden

The most recent zero measurement for fiscal legislative purposes was conducted in 2003. The reference date used was December 31, 2002. This means that the administrative burden was measured taking into account the laws and regulations in force on that date. The table below shows a summary of the concerned zero measurement:

TOPIC 2.1

Statutory regulation	Administrative burden
Income tax ³	• 561 m
Corporate tax	• 272 m
Wage tax	• 730 m
Turnover tax	• 1493 m
Customs & Excise laws	• 243 m
Formal legislation	• 279 m
Inheritance tax	• 46 m
Others	• 68 m
<i>Total</i>	• 3692 m

m = million

As the table shows, the administrative burden related to the fiscal laws and regulations in force as at December 31, 2002, was set at • 3692 million. By far the largest proportion is accounted for by the administrative burden related to turnover tax. This can be explained by the fact that this amount includes the administrative burden involved in drawing up invoices including VAT. This amounts to • 971 million. Another large entry is formed by the administrative burden related to wage tax. The amount for wage tax is so high since many things have to be recorded and kept up to date for each individual employee. Another reason is the relatively high frequency of filing wage tax returns. Dependent on the size of the company, tax returns must be filed monthly or quarterly.

To form a picture: the total costs of the Tax Administration in 2002 amounted to approximately • 3 billion. In the same year, the total tax proceeds amounted to approximately • 105 billion.

4.6 Estimates of proposed amendments

Each legislative proposal presented to the Council of Ministers must include a paragraph outlining the effects of the proposal

³ Income tax is included in the zero measurement as far as it concerns profit from business operations. The administrative burden related to income tax for private persons is dealt with separately in the framework of an administrative burden relief project geared to private persons.

to the administrative burden for private enterprise. This is necessary in order to be able to take these effects into consideration when making a decision on the proposal and for monitoring the progress in realising the formulated goals.

To draw up such a paragraph, an estimate needs to be made of the anticipated effects of the legislative proposal on the administrative burden. These estimates are made on the basis of spreadsheets containing the outcome of the zero measurements. Using the details of the zero measurement, an estimate is made of the consequences of the legislative proposal for the actions outlined in the proposal. Sometimes, the proposal may result in the cancellation of the obligation to perform certain actions while in other situations the entrepreneurs may be compelled to perform new types of actions which means that an estimate of the time required for performing these actions and of the frequency of having to perform these actions, must be made.

The total administrative burden is in fact not only influenced by proposals to amend existing laws and regulations. Other factors, such as the growth of the economy, pay increases and rising staff numbers may also affect the size of the administrative burden. These factors, however, are not taken into consideration when making the above-mentioned estimates. During the entire cabinet's period in office, the estimate is solely based on the figures from the zero measurement. This is to ensure that, when measuring, these external factors do not interfere with the results of the policy aimed at reducing the administrative burden. If external factors were taken into account in the estimates, a reduction of the administrative burden by 10% as a direct result of the government's policies could be nullified, for example, by a 10% rise of the number of entrepreneurs confronted with that administrative burden.

5. CONCLUDING REMARKS

In the Netherlands, the total administrative burden imposed on businesses as a result of tax legislation and regulations, amounts to approximately • 3,7 billion which is almost one quarter of the total compliance costs of more than • 16 billion that results from the various laws and regulations in force as at December 31, 2002. This makes the tax system the area of legislation that produces the highest compliance costs.

TOPIC 2.1

Still, a few remarks should be made in this respect. First, much effort has been made in the past few years to reduce the administrative burden caused by the tax system. In the years preceding December 31, 2002 this already resulted in a reduction by several hundreds of millions of euros.

It should also be noted that the total size of the administrative burden itself does not present the full picture. For instance, if a Dutch businessman is asked what type of administrative burden he finds most oppressive, chances are that he will refer to his obligation to fill in surveys sent by the Central Bureau of Statistics for compiling their statistics. Measured in absolute terms, the pressure of the total administrative burden involved in completing these surveys is approximately • 40 million, which is only one per cent of the total administrative burden resulting from fiscal laws and regulations. And yet, he feels that the most aggravating administrative burden is the burden caused by these surveys. This probably has to do with the marginal relationship that exists between the information required from the entrepreneur in the surveys and the nature of his principal business. The above example shows that not only absolute figures but also most certainly the entrepreneur's perception play an important role in the evaluation and subsequent assessment of the level of the administrative burden.

However, it should not be concluded from the above that there is no need for further aiming to reduce the fiscal administrative burden. Although the formulation and presentation of fresh proposals is somewhat hampered by the steps that were already taken in previous years, a lot of work still lies ahead of us. For instance, with effect from January 1st, 2006, an ambitious legislative project will take effect under which the levy and collection of employees' social security contributions will be transferred to the Tax Administration. This task is currently carried out by a separate social security agency. At the same time, the basic amounts on which tax and contributions are levied will be substantially harmonised. This operation will result in a • 180 million reduction of the administrative burden related to taxation. On top of that, another reduction of almost • 100 million will be realised in the field of social security.

TOPIC 2.1

Particularly in the light of the Dutch cabinet's intention to reduce the overall administrative burden by a quarter, reducing the burden caused by tax legislation and regulations is likely to remain high on the policy agenda for some time. As such, the issue of finding the right balance for adequately controlling the entrepreneur's due fulfillment of his tax obligations on the one hand and the interest of keeping the entrepreneur's compliance costs as low as possible on the other hand remain open.

Case study

TOPIC 2.2

MEASUREMENT AND THE MANAGEMENT OF COSTS

Daniel Dubost

Deputy Director of Budget and Logistics
General Directorate of Taxes – DGI
(France)

CONTENTS: 1. Measure.- Measurement with respect to pertinent values.- Result of measurement in France: DGI expenditures / Equivalent expenditures.- Tax management cost.- International comparisons.- 2. Share the Information on Costs.- 3. Account for Someone Responsible.- 4. Reduce Expenditure: the Spend Better Program.- Reduce real estate expenditure + one example: real estate expenditure – results for the State.- Results for the agents.- Prevent increases in expenditure.- Maintain the reduction of expenditure.

(Note of the Publisher) We incorporate to this publication the reproduction of the Power Point presented by Mr. Daniel Dubost, Deputy Director of Budget and Logistics of the General Directorate of Taxes – DGI of France.

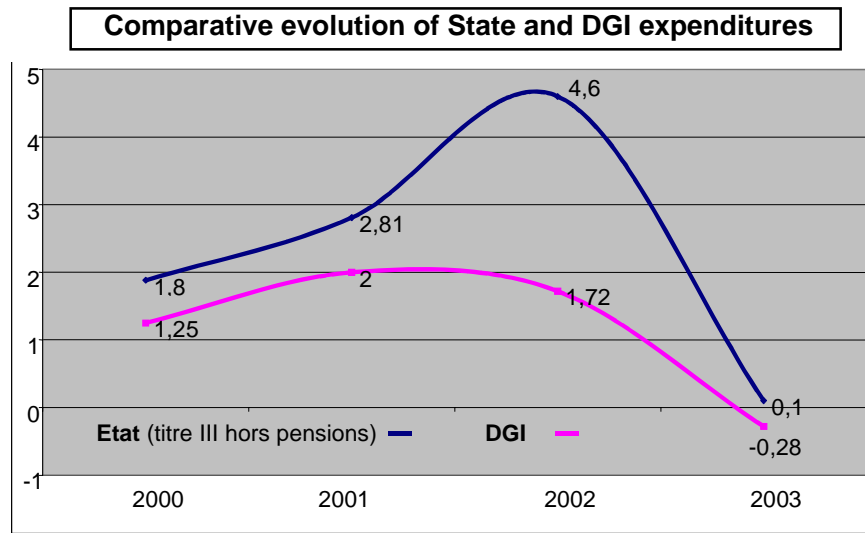
1 - Measure

- Have a complete measurement
 - Pay attention to costs not taken into account:
 - pensions
 - patrimonial real estate
 - allegedly free benefits
- Determine a complete cost broader than the budgetary cost

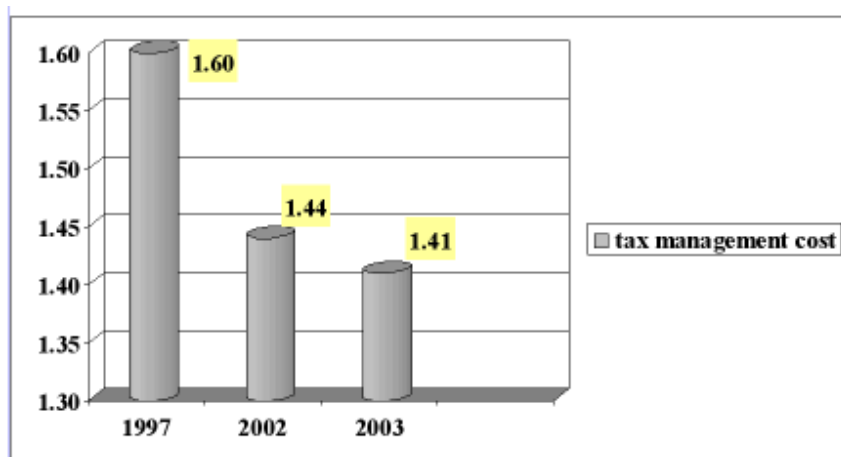
Measurement with respect to pertinent values

- International comparisons
- Comparable national administrations
- General criterion on the evolution of public expenditures
- The French option: equivalent expenditures
 - Pertinent definition of volume of equivalent expenditures
 - Stable and significant volume of expenditures

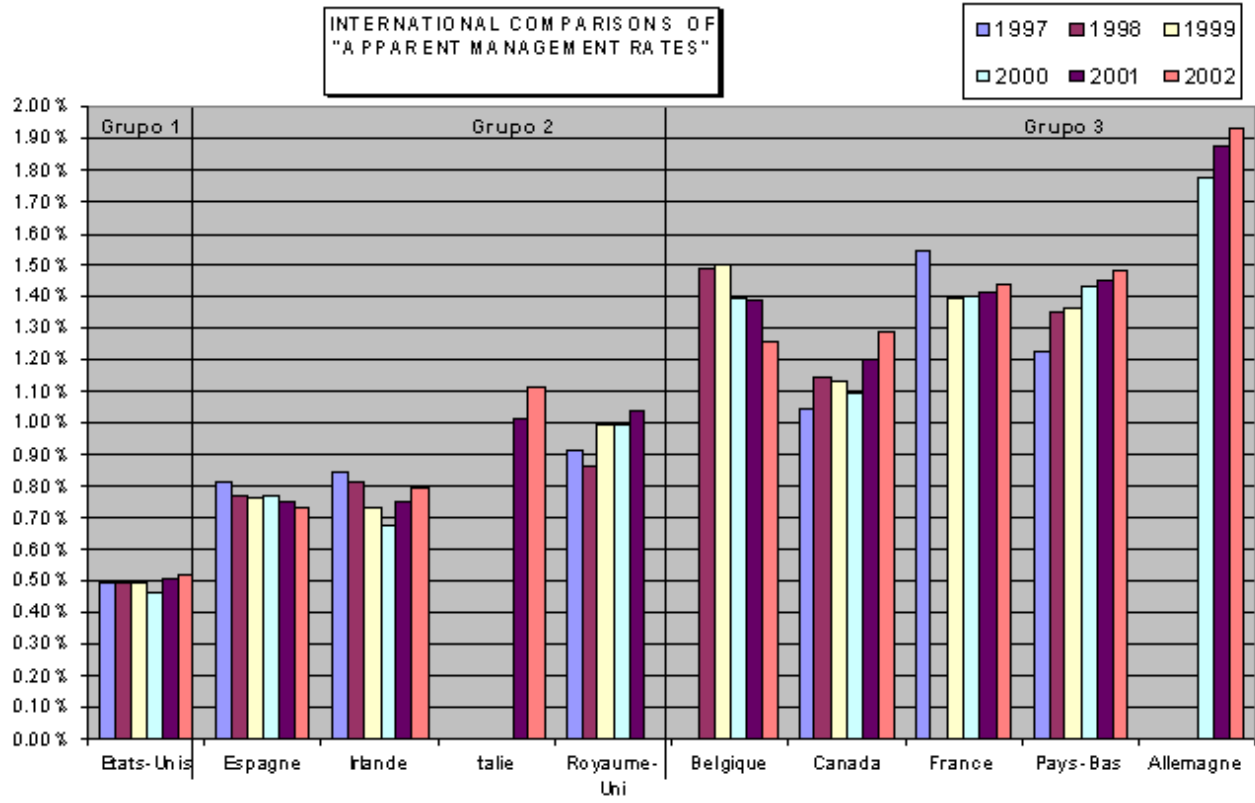
**Result of measurement in France:
DGI expenditures/ equivalent expenditures**



Result of measurement in France: tax management cost



Result of measurement in France: international comparisons



2 – Share information on costs

- **Allow for adequacy of information**
 - Intellectual adequacy: understand
 - Operational adequacy: have a budget which one manages and provide the budget management instruments

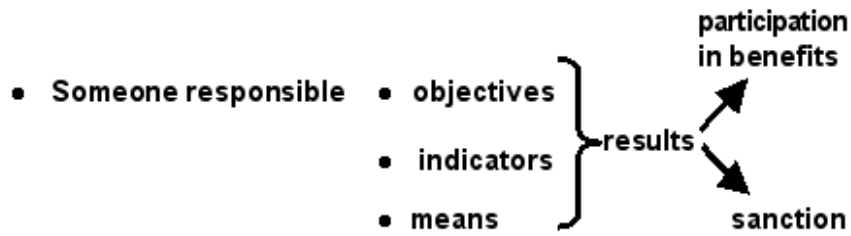
- **Total transparency**
 - with the safekeeping authorities
 - with the control entities
 - with the decentralized services
 - be auditable and audited

- **Share at regular intervals**
 - Determine an obligatory timeliness for reporting France
 - monthly for expenditures
 - quarterly for objectives and values of indicators

- **Share physically**
 - Results made available to everyone through Intranet

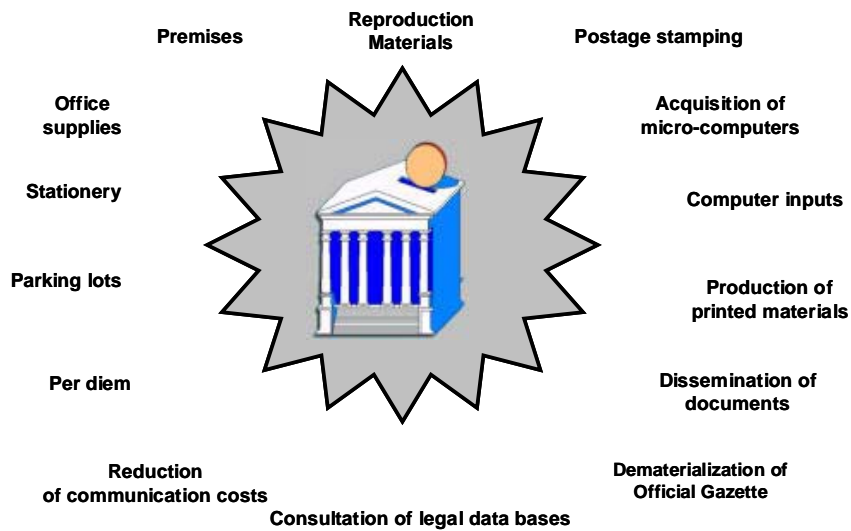
- **Organize management control**
 - Inter-regional delegates in charge of looking after results
 - Management control unit under the General Director

3 –Account for



- Define rules of the game and abide by them
- Allow the comparison of results
 - Establishment of comparable management ratios

4 -Reduce expenditure: the spend better program

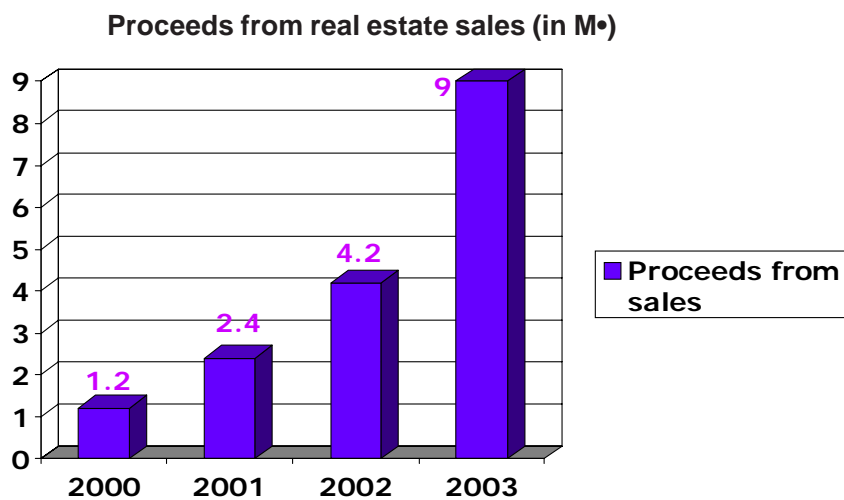


Reduce real estate expenditure + one example: real estate expenditure

- **Obtain a real estate management instrument**
 - Physical
 - Financial
 - Qualitative
 - Use

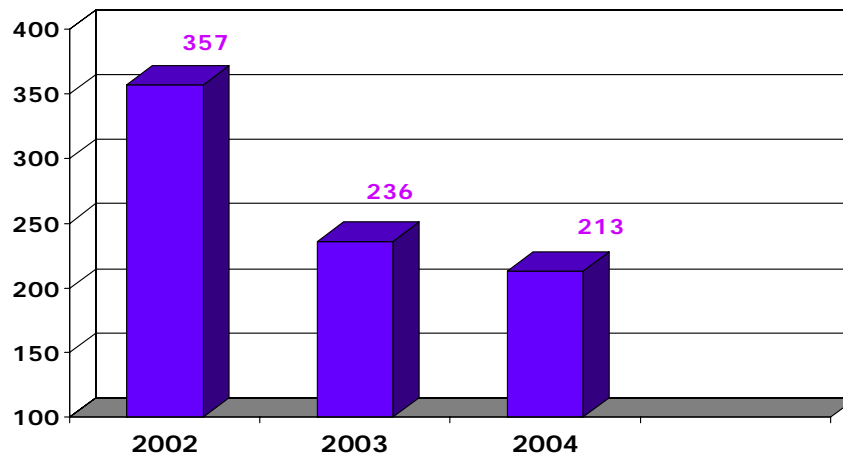
- **Win-win game «gagnant - gagnant»**
 - Reduction of surfaces for employer
 - Improvement of working environment for the employee

Reduce real estate expenditure - results for the state



Reduce real estate expenditure - results for the agents

2002-2004 Evolution of office space considered in poor conditions (in 000's of m2)



Prevent increases in expenditure

- The most difficult: political will eventually contrary to easing the administrative burdens
- Generalize the technique of the «study of impact» of legislative measures
- Ensure an adequate relationship between:
 - the elaboration of the fiscal law
 - the application of the fiscal law
- Obtain analysis instruments: tax complexity indicator

Maintain the reduction of expenditure

- The best defense is to attack
- Permanent simplification objective ð mission simplifications
- Permanent objective of being exemplary
- Permanent objective of locating oneself in a reference situation

Case study

TOPIC 2.2

MEASUREMENT AND MANAGEMENT OF ADMINISTRATIVE COSTS

Oswaldo Iván Aguirre Cevallos
Institutional Development National Director
Internal Revenue Service - SRI
(Ecuador)

CONTENTS: Introduction.- Bases of the Model.- Institutional Budget.- Human Resources.- Physical Infrastructure.- Investment in Technology.- Measurement and Management of Costs.- Conclusions.- Annexes.

INTRODUCTION

Financial management, the definition of administrative cost, budgetary management and effectiveness in the justification of the use of resources, although important, are not the factors determining the impact and social effect which a Tax Administration may cause, but rather they respond to a management model based on the institutional vision and mission and the determination of policies, objectives and strategies that may guide a permanent modernization process. On this basis, it must be observed that costs and their justification are directly linked to the quality of the processes and procedures of the Tax Administration as a whole. Thus, for example, high costs may be derived, among other aspects, from the structural rigidity, excessive staff, an inadequate investment policy or the deficient configuration of the systems and computer platform.

TOPIC 2.2

In the case of the Internal Revenue Service of Ecuador, the law that provided for its establishment was issued in December 1997, and it conceptualized tax management by taking into account the need to recover the fiscal balance and macroeconomic stability, to promote the creation of a new tax culture and adopt the necessary mechanisms for consolidating in the fiscal objectives, the substitution of oil revenues with stable tax revenues.

In this context, the Ecuadorian Tax Administration, basing its actions on the principles of justice, equity and absolute political neutrality, applies a management model which is not solely oriented toward increasing collection, but also recovering the trust, institutional value and dignity and, in general, the quality of public service, inasmuch as the underlying concepts of efficiency and effectiveness have implied, in practice, the introduction of market and productivity mechanisms within a State organization.

To achieve the institutional objectives, the efficient management of financial resources and the justification of the administrative costs involved in each and every one of the operational procedures and processes were considered extremely important. The application of investment and expenditure policies have contributed to achieve significant levels of savings and to the possibility of using the surplus for facing the operational changes derived from legal reforms and new projects determined by the government and the institution.

The historical operational cost of the SRI, considering current expenditures and investment, has always been maintained below 1.5%, which is the percentage of participation which corresponds to it, in accordance with the law. Investments fundamentally dealt with the technological modernization and readaptation of the offices, while the operational expenditures reflect the progressive incorporation of new staff and support services, to the extent the organization and the management of tax processes were consolidated.

BASES OF THE MODEL

The process of transforming the Ecuadorian Tax Administration actually began in 1999 and initially, it was necessary to face serious deficiencies mainly in the area of human resources, infrastructure and operational processes which required an integral re-engineering and the design and implementation of an organizational model aimed at a new way of public management. Institutional development has been based on the following strategies:

-
- **Normative centralization and operational decentralization:** The Central Administration establishes the strategic guidelines, policies, standards and procedures, conceptualizes and designs the projects, while the decentralized units carry out the operational tasks based on uniformity and continuous improvement criteria.
 - **Organizational flexibility:** The administrative structure of the SRI is characterized by its prompt adaptation to changes in the tax legislation, the socioeconomic environment and the governmental policy.
 - **Outsourcing:** The administrative and support processes that are not directly related to the institution's tax management are carried out by third parties hired for such purposes.
 - **Professionalization:** The SRI's human resources are managed through strict selection processes that may allow for having available qualified professional staff, required for providing a quality service and competing in the tax control processes, with professionals linked to private enterprise.
 - **Information Technology:** The incorporation and use of state-of-the-art technology in the systematization and automation of tax processes, allows for reducing the discretionality of the officials, increasing their productivity and rendering a high quality service to the taxpayers.
 - **Efficiency:** Resources are prioritized toward projects contributing to maximized voluntary compliance, maintaining the perception of risk toward noncompliance, increasing collection and minimizing costs for the administration, as well as for the taxpayers.

Standing out among these strategies are the professionalization of the human resources and information technology, which have been favorably commented by several international organizations.

In this sense, the International Monetary Fund, in its 2003 report, said the following in relation to the SRI's activity: "Following the appointment of a new Director in September 1998, a massive process of changes has begun. Most of the former staff was substituted with new hired staff and a system of incentives and compensations was implemented, according to the autonomous nature of the institutions, which was complemented with technological changes and training".

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On its part, in its report, upon conclusion of the project for the “Modernization of the Tax System of Ecuador”, the IDB stated: “Human resources management, under innovative bylaws that favor merit and efficiency and deviates from the dogmas of stability and recognition of seniority in the service, that is so common to the principles of most administrative career bylaws, also constitutes, according to the experience analyzed at the SRI, a condition for the professionalization of the staff which results in a key success factor of the institutional modernization processes...” It also noted: “The information technology strategy defined in early 1999, surprises, due to its currentness and its technological vision which anticipated trends...”

INSTITUTIONAL BUDGET

The Institution, under the principle of respect in the use of public resources, recognizes the sacrifice which the payment of taxes represents for society and, accordingly, uses budgeting and control mechanisms that may ensure the efficient use and quality of institutional spending. The SRI is responsible for the formulation and execution of the budget and it uses the following sources for its financing:

- **From participation:** According to the Law, it is entitled to 1.5% of participation in the collection of taxes administered. Estimation of tax revenues is coordinated annually with the Ministry of Economy and Finance, through the application of technical criteria based on the economic perspectives, legal framework and tax control projects.
- **Other sources:** Use has been made of resources and technical assistance, from international cooperation, mainly from the Inter-American Development Bank (IDB), the Inter-American Center of Tax Administrations (CIAT), USAID, Treasury Department (USA) and the Internal Revenue Service (IRS).

The administrative and budgetary autonomy determined in the law that provided for its creation, allows the SRI sufficient flexibility in the management of human, material and financial resources and establishes control mechanisms that may avoid unnecessary expenditures and guarantee that the public interest is protected at all times. In this context, the financial administration acts in an integrated manner, under the following guidelines:

- Manage public resources in such a way that it may ensure compliance with the institutional objectives;
- Contribute so that operational management may be carried out in the most economic and efficient manner;
- Guarantee transparency and maintain a system of accountability to citizens and control entities;
- Generate timely and reliable information for making decisions; and,
- Favor projects and investments aimed at the professionalization of human resources and the physical and technological infrastructure.

HUMAN RESOURCES

The incorporation of human resources has been subjected to evaluation and monitoring of the staff needs, based on management indicators that provide sufficient information to avoid the unnecessary growth of the organization and the indiscriminate increase of costs. The SRI's salary policy is based on competitive remuneration, without additional perquisites, but which at the same time considers an annual variable productivity bonus, according to compliance with the institutional goals and the official's individual performance. Training has also been essential in the development of the officials' abilities and skills, for which use has been made of the sponsorships and aid from national and foreign institutions, thus reducing, through this practice, the costs associated to this process.

PHYSICAL INFRASTRUCTURE

The criteria guiding this type of investment are based on the cost-benefit relationship of the projects, outsourcing of construction activities and use of unproductive real estate owned by the public or private sector. Priority has been given to investments in property and real estate in localities where there was no institutional presence. Currently, in all SRI offices, officials have an adequate physical working environment and areas specially designed and equipped for taxpayer assistance, counseling, tax training and the receipt of information. The effect of these investments has been reflected in the significant increase of collection and of the taxpayer base, as observed in the Annex.

INVESTMENT IN TECHNOLOGY

Investment in technology was initially oriented toward the total redesign of the computer platform, automating the tax processes, restructuring the sources and flows of information entering the data base, interconnecting all the offices at the national level and providing each official the software and hardware tools required for carrying out their functions. The application of this strategy allowed for consolidating the policy of operational decentralization in the country's regional offices, reducing the operational costs of the tax processes and significantly reducing the indirect fiscal pressure on the taxpayers.

One of the particular policies of the Ecuadorian tax administration with respect to resources allocated to information technology consists of sub-hiring the development of the computerized applications, whose conceptualization is determined by the administration itself. This strategy allows for maximizing the use of resources, reducing costs and increasing the capacity for responding to tax management requirements.

MEASUREMENT AND MANAGEMENT OF COSTS

In order to achieve the objectives linked to administrative and financial management, the SRI has designed a budgetary expenditure control system, based on two approaches:

- *Financial-accounting*, which is based on the recording and follow-up of costs and expenditures in accordance with the institutional budget, accounting standards and procedures established by the Administration.
- *Management and efficiency*, which uses specific indicators for measuring productivity and effectiveness of the investment and expenditure projects, creating throughout the organization a culture of self-control and respect for the use of public resources.

As for the *financial-accounting* approach, in addition to the fact that the accounts specify the type of expenditure, current expenditures and investments are recorded by geographical level and functional unit, under a computerized system of management by companies which determines

independent cost centers. Likewise, distribution tables are used for centralized acquisitions and for assigning corporate costs to different functional units. This modality allows for managing and handling in an efficient, integral, timely and reliable manner, an information and management system that may contribute to timely and effective decision-making.

All contracts are published in Internet, and there is a data base with qualified suppliers and differentiated and controlled procedures according to amounts, whereby it is possible to obtain goods and services and undertake works in the best of market conditions. In addition, the processes have been designed under strict transparency practices, seeking the best conditions with respect to quality and price.

When there are additional costs and expenditures that have not been budgeted, originating from changes in the legal framework or temporary junctures, the corresponding allocation is made and depending on the financial and strategic dimension and importance of the resources involved, they come to be administered as specific projects. Following their execution and based on their nature, they are then entered as current expenditure or investment in the accounting record.

From the management and efficiency perspective, performance evaluation indicators are used to basically measure the ratio of the operational expenditure of each decentralized unit to collection. In this way, shared responsibility in the management of revenues and execution of the budget between the Central Administration and Regional Directorates has been promoted.

Collection goals are differentiated in accordance with the dimension and coverage of each office. In some of them the rate of expenditures exceeds the national mean, due to the execution of expansion projects, which situation is explained by the need to increase the fiscal presence, even in geographical areas whose collection potential does not economically justify their operational expenditures. A comparative analysis is also made of total operational expenditures by official in each office, to support the analysis and justification of new investments, the hiring of staff and focusing on the allocation of resources in those areas that are directly linked to the institutional objectives.

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The application of this whole series of policies, strategies and procedures is synthesized in a radical change of the SRI's institutional image before the Ecuadorian society and in turn, in an increase of tax collection which, between 1998 and 2003, showed a sustained growth from US \$1,436 million to US \$2,908 million, with an increase of 102.5%. This dynamism favored the recomposition of the revenue structure of the State's General Budget wherein, without taking into consideration financing originating from external and internal indebtedness, the tax revenues collected by the SRI, increased their participation from 35% in 1998 to 60% in 2003, which element has contributed to the process of governability in Ecuador.

CONCLUSIONS

Tax administrations should be aware that the establishment of a fixed allocation originating from collection, could result in undesirable rigidities in institutional current expenditures, to the extent that tax revenues are linked to cyclical elements of the economy or variations in tax policy. In this sense, in order for an organization to positively face the eventuality of these junctural or definitive variations, the budget should be executed in keeping with actual needs and should count on a margin of flexibility and maneuvering capability.

The efficiency of a Tax Administration not only involves the adequate use of its resources, but also considering the costs implicit in complying with the taxpayer obligations. For such purpose, organizations should count on qualified staff and fully computerized working processes, with the allocation of sufficient resources for such purpose, in order to improve communication and the service to citizens.

Financial management systems, even though they have certain conceptual and methodological peculiarities, must interact with the other systems of the Tax Administration, in order to develop and apply an integrated management model for effective decision-making and the adoption of control and transparency mechanisms required by the management of public resources.

The complexity of management of the Tax Administration calls for orienting its efforts toward activities fundamentally related to the powers assigned to it by the legislation: collect, assess, solve and sanction. In this sense, outsourcing has become a mechanism that allows for carrying out certain processes with flexibility and functionality at convenient costs, especially in administrative support activities.

Lastly, it is convenient to insist on the fact that tax administrations should go beyond a state bureaucratic model and for that reason, all administrative costs and expenditures must be fully justified through projects that add value, increase the levels of collection, reduce the indirect tax pressure and consolidate the institutional image, always, according to savings, efficiency and effectiveness criteria.

ECUADOR

INTERNAL REVENUE SERVICE (SRI)

	1999	2000	2001	2002
Number of Taxpayers (in 000's)	633	765	1,031	1,203
Population (in 000's)	11,667	11,909	12,157	12,408
Number of Officials (in 000's)	0.4	0.7	1.0	1.6
SRI Collection (in millions of US\$) ¹	1,379	1,659	2,346	2,710
Gross Domestic Product (GDP) (in millions of US\$)	16,674	15,934	21,024	24,311
Budgetary Execution (in millions of US\$) ²	4.3	6.4	15.4	30.0
SRI Tax pressure	8.3%	10.4%	11.2%	11.1%
SRI Budgetary Execution / SRI Collection	0.3%	0.4%	0.7%	1.1%
Taxpayers / Officials	1,583	1,092	1,004	760
Inhabitants / Officials	29,168	17,013	11,837	7,833

(1) Includes collection of Income Tax, Value Added Tax, Excise Taxes and Tax on the Ownership of Vehicles.

(2).- Budgetary Execution includes all current expenditures and investments made during the year.

Prepared by: Internal Revenue Service
September 2004

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	1999	2000	2001	2002	2003
GDP	16,674,495	15,933,666	21,024,085	24,310,944	27,200,959
RECA	1,379,184	1,659,000	2,345,653	2,709,549	2,908,089
PRESSURE 1	8.3%	10.4%	11.2%	11.1%	10.7%
TARIFFS		210,114	376,558	454,004	417,632
PRESSURE 2		11.7%	12.9%	13.0%	12.2%

ANNEX 1

ECUADOR		
INTERNAL REVENUE SERVICE		
	1999	2003
Tax pressure (1)	8.30%	10.80%
SRI Expenditures / Tax Collection (2)	0.31%	1.04%
Measurement Indicators of the SRI's Management and Productivity		
Indicators	January - June	
	2003	2004
# Taxpayers / # Officials	646	663
# Inhabitants / # Officials	7,240	6,820
Operational Expenditure / # of Officials (5,420	6,313
(1).- Does not include Social Security contributions and Tariffs.		
(2).- The law provides that the equivalent of 1.5% of tax collections will constitute financial resources of the SRI.		
Prepared by Internal Revenue Service		

Case study

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THE USE OF INTERNET TO REDUCE COMPLIANCE AND ADMINISTRATIVE COSTS

Juan Toro Rivera
General Director
Internal Revenue Service - SII
(Chile)

CONTENTS: 1. Introduction.- 2. E-Government Solutions of the Internal Revenue Service (SII).- 2.1. Internet as a strategic option of SII.- 2.2 Most important e-Government solutions in the SII.- 3. Measurement of the Impact of Internet in Reducing Administrative and Compliance Costs in the Case of Operation Income.- 3.1 Process description.- 3.2 Administrative costs reduction estimates.- 3.3 Compliance costs reduction estimates.- 4. Electronic Invoice, Fees Receipt and Beginning of Activities Through Internet: Impact on Cost Reduction.- 4.1 Electronic invoice.- 4.2 The electronic fees receipt and independent professionals beginning activities.- Final Comments.- Annex 1. E-Government Applications of the SII.- Annex 2. Detailed Calculation of Administrative Cost Reduction in Operation Income.

SUMMARY

The use of Internet in the Internal Revenue Service (SII, in Spanish) is set within a more general concept of Electronic Government. In this context, the Internet is seen as a strategic option, directed to strengthen

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the three pillars that support the current management system of the Service: (1) Contribute to Economic Development (2) Facilitate Tax Compliance and (3) Strengthen Examination Control. From this point of view, the Internet has meant a radical change in the manner in which the tax administration is conceived.

This paper analyzes the e-Government solutions offered by SII, in terms of the strategic vision in which they have been approached, their evolution throughout time and the benefits that they represent for taxpayers and the tax administration. The focus is on the topic of how the Internet helps reduce compliance and administrative costs in the Income Operation and the Issuance of Electronic Documents.

From the Income Operation analysis it is concluded that e-Government solutions implemented during the past years have reduced individual income tax compliance costs, this is equal to 2.6% of the collection, which is mainly explained by the less time that taxpayers must assign to activities related to the preparation of the Income Tax Return.

In terms of reducing administrative costs, estimates are that the electronic Income Operation has reported savings equal to 14.8% of the annual budget of SII. These savings are mainly linked to a reduced amount of number of returns challenged, as a consequence of having better quality information from taxpayers as well as from information agents, resulting in a smaller number of taxpayers requesting service at the offices of the SII.

Regarding the electronic issuance of documents, studies carried out by the Chamber of Commerce of Santiago estimate that during the stage in which the electronic invoice will be adopted, taxpayer savings, as a result of compliance costs, will be in the amount of US\$ 300 million, this figure represents 0.5% of the GDP. Notwithstanding, transaction costs which are unrelated to the distinctly tax scope – coming from improvements in the logistics of receiving and dispatching goods, automation of business cycles, customer and supplier management, etc. – will represent important savings that will contribute to significantly increase company productivity.

1. INTRODUCTION

Currently, the Internet is present in most Tax Administrations of the world, although with different development levels. Some of them only offer information services, other provide transaction services and maybe few allow taxpayers follow their tax transactions and offer interested third parties the possibility to inquire tax antecedents. A study developed by SII during the end of 2000¹ compared Internet based income tax return services in eighteen countries, almost all developed countries. Results showed that twelve of these countries provided transaction services, be it through the filing of returns, tax payments or both, which the five remaining countries only had information pages. However, four of them had of the intention of implementing transaction applications within three years. This result illustrates the positive opinion that the tax administrations have in practice regarding the benefits of applying the Internet in their business processes.

It is evident that services provided through the Internet must mainly be directed to facilitate the relation between the Tax Administration (TA) and the taxpayers. The filing of returns, tax payments and the authorization of tax documents, such as invoices, and fees receipts, among others, must clear the way for the possibility of using this tool to interact with other persons or entities that are connected to the same – i.e. officials, suppliers, public sector, etc.— which can also report important benefits in terms of improving efficiency and transparency in different business processes.

In this second scope, the Internet opens the possibility of improving acquisitions, by implementing, for example, applications to complete different stages in public tender processes. Similarly, it can facilitate the management of human resources, through the implementation of applications for the opening of positions and personnel selection. We must not forget the potentials of the Intranet, which allow to radically change the manner in which internal processes linked to what may be called the *life cycle of the officials* is performed, such as in the case of requests for vacations and administrative permits for personnel, purchase requests for inputs and contract services; dissemination of information; obtain certificates; etc.

¹ Silva, Javier (2000); "Comparative Study of Income Tax Returns filed through the Internet in the Tax Administrations of Different Countries"; Internal Revenue Service; Chile.

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The use of Internet as the main means to connect to taxpayers and other users grants the tax administration a series of benefits, direct as well as indirect. A first direct benefit is that the Internet can reduce administrative costs, understood as those human, financial and technological resources that are necessary to manage the tax structure and that are reflected in the tax administration's annual budget. That is, the same tasks as before may be done at less cost. Nevertheless, the use of information technologies requires strong investments and it has operation costs as well, because administrative costs increase with their implementation. Always bearing in mind that the reduction of administrative costs is not, the objective sought with e-Government solutions. More importantly, the execution of the same tasks at less cost is the possibility that is open, as from the e-Government platform, to perform new tasks or actions, which allow the Tax Administration to make a quantum leap in terms of efficiency and effectiveness.

In this same manner, another equally relevant benefit and an indirect one for the Tax Administration is the reduction of compliance costs, that is, cost in which taxpayers must incur to comply with their tax obligations, which may take the form of financial resources, time or psychological costs. Compliance cost reductions indirectly benefit the Tax Administration, since the taxpayer's perceptions on the tax system are improved, hence increasing their disposition to pay taxes. Furthermore, making the payment of taxes easier is for many tax administrations a strategic objective in itself.

The effects of Internet on administrative and compliance costs will be analyzed in detail in the following sections. However, there are other benefits associated to the use of Internet in the Tax Administration. First, *increased examination effectiveness*, since by receiving electronically returns, and other antecedents from taxpayers, withholding agents and information entities allows having better quality data, free of input mistakes and with less return omissions or mistakes. This produces information cross-referencing and selections for more accurate audits.

Second, the Internet can help *raise the acceptance of the tax system* by taxpayers. As it is used to facilitate the performance of proceedings or to accept complaints and opinions, the Tax Administration and the tax system in general will receive favorable evaluations, leading to better compliance levels.

Third, the Internet is useful to achieve *greater transparency* in the Tax Administration's transactions, through the automation of acquisition processes and personnel contracting, the dissemination of management report, resolutions, jurisprudence and tax revenue statistics, among other things.

Finally, the Internet is a useful tool to increase the Tax Administration contribution to the modernization of the State and economic development. The dissemination of useful tax statistics for decision making in the public and private scope, and the establishment of web services to exchange information with other fiscal entities as examples of how the Internet enables this contribution.

2. E-GOVERNMENT SOLUTIONS OF THE INTERNAL REVENUE SERVICE (SII)

2.1 Internet as a Strategic Option of SII

For some time now the SII has committed to the strategic option of transforming the Internet into the main means to connect with taxpayers. With this purpose in mind, it has decidedly and enthusiastically promoted the mass and growing use of the facilities and potential offered by the Internet environment.

The use of Internet in the SII is set within the most general concept of e-Government, understood as "the use of information and communications technologies to facilitate access to citizens, organizations and the government to information, services and/or dialogue with the public administration, at all hierarchic, organizational and territorial levels." In this context, the e-Government and the intelligent use of information and communications technologies, is seen as a strategic option, which it directed to strengthen the three pillars that support the current management of the Service: (1) Contribute to Economic Development (2) Facilitate Tax Compliance and, (3) Strengthen Examination Controls.

In effect, through e-government solutions, the SII is determined to:

- Provide taxpayers high quality services that facilitate and improve tax compliance;
- Minimize tax compliance costs and taxpayer visits to the offices of the SII, the banking institutions that carry out collection and other organizations that must provide information for correct tax compliance;

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- Optimize the capacity of SII to use and manage taxpayer information, strengthening examination controls;
- Promote the adoption of Internet, not only for tax compliance, but to make the taxpayer's entire business cycle more efficient; and,
- Produce a demonstration effect in other public sector agencies as well as in the private sector.

These facilities that are currently available, have been the product of a systematic process that began some years ago, through which a series of innovations were incorporated and gradually placed at the taxpayers' disposition (please refer to the Exhibit titled "Evolution of Internet in the SII").

The thrust given by the SII to the use of Internet required at the beginning that the legislation be adapted. In effect, in 1997 the modification of the Tax Code was necessary to authorize taxpayers to file reports and returns through means different than paper, and which were to be read using technological systems. Thanks to this legal modification, it is currently possible to receive tax returns through Internet, providing greater transparency in the delivery and presentation of information by taxpayers, which has enabled the delivery of a much more egalitarian and equitable service to all taxpayers using this mean.

Evolution of Internet in the SII

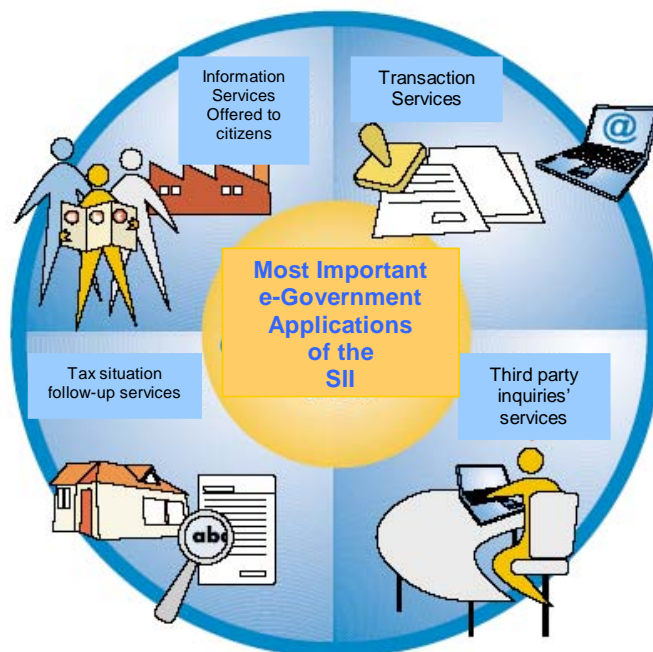
Until 1995, taxpayers, had to go in person to the offices of the SII to comply with their tax obligations, by using the support of paper documents for this purpose. All this resulted the high cost of complying with tax obligations, as well as significant operation and administrative costs for the SII.

After analyzing this situation, the SII adopted the strategic decision to incorporate and develop the Internet as the essential tool to facilitate relations with taxpayers in all the abovementioned dimensions. So much so, that in 1995 the SII's Internet Web Site (www.sii.cl) was created, and its initial objective was circumscribed to satisfy general information requirements of taxpayers, so they would not have the need to visit the Offices of the SII. The most important milestones in the development of the web site of the SII are the following:

- 1995: The web page of the SII is created.*
- 1997: Inquiries pertaining to the results of the Income Operation is made available through the Internet Site, by delivering personalized information to taxpayers.*
- 1998: The possibility of filing Returns through the Internet is offered, by the delivery of passwords for those who wished to file their returns through these means, guaranteeing the privacy and the authenticity of the information. Furthermore, a Corrections pilot plan for Income Returns is carried out through the Internet.*
- 1999: An application to file the Income Tax Return is made available through the Web Site of the SII. Information on the acceptance or rejection thereof begin to be delivered, as well as the objections made to the same, and the possibility of making the corrections via the Internet is offered. Additionally, during this year VAT returns through the Internet begin to be received.*
- 2000: The option of paying Income Taxes and VAT through the Internet is incorporated during this year.*
- 2001: The payment of taxes through Internet is perfected, allowing taxpayers to make debits to their online bank accounts when filing the tax return to cover the balance to pay.*
- 2002: Payment through Internet is increased with the option of charging to credit cards.*
- 2001: The SII puts at the taxpayers' disposition in its web site a Proposed Income Tax Return. As from the large volume of information that the SII captures from third parties via Internet and from the computer modeling of the standards that must be applied to these returns, a Proposed Income Tax Return is built. This innovation has meant a significant impact in the simplification of tax compliance and in the reduction of compliance costs.*
- 2002: An electronic invoice pilot plan begins, with a reduced group of large businesses. The SII's web page is redesigned with the purpose of facilitating to a maximum taxpayer' tax obligations.*
- 2003: The mass delivery of electronic invoices begins. The function of obtaining online electronic fees receipts is incorporated. The option to obtain a password for Taxpayer Registry is changed, which in addition to obtaining the password, allows the performance of online activities. Furthermore, Frequently Asked Questions are reordered according to categories, which facilitates its use.*
- 2004: The target of receiving 100% of the income tax returns through Internet is achieved. The new Electronic Fees receipt is launched, which among other things, does not need to be printed in paper.*

2.2 Most Important e-Government Solutions in the SII

Internet solutions offered by SII may be divided into four categories: (1) information services for citizens, which mainly consist in the publication of antecedents of different nature, considered useful to users accessing the Web; (2) transaction services, where is free flow of information in two directions – from the tax administration to the user and vice versa — generally with access to the institutional data bases; (3) follow-up services of the tax situation, which allow taxpayers to know at every instant the stage of their proceedings; and (4) inquiry services for third parties, which allow third parties inquire taxpayer antecedents, with authorization from the same in the case of confidential information.



These services are present in each stage of the taxpayer's life cycle, from the beginning of activities right up to the end of the activity. It is important to mention that, in general, these services are not only a new way of doing the same thing as before or a support to the different stages of the tax compliance process, but they constitute a different manner of conceiving the tasks of the tax administration.

Annex 1 presents a brief description of the different e-Government solutions of SII, classified in the four categories mentioned above and in the following image, the main page of the web site of SII, with its three columns: Tax Actuality, SII Virtual Office and Taxpayer Assistance.



The screenshot shows the main page of the SII website. At the top, there is a search bar and navigation links. The main content is organized into three columns:

- ACTUALIDAD TRIBUTARIA (Tax Actuality):** Includes news, notices, and articles such as 'En Calama condenan a cinco miembros de banda que traficaba con cigarrillos' and 'SII desarticula mafia de facturas falsas que operaba en Valdivia y Osorno'.
- ASISTENCIA AL CONTRIBUYENTE (Taxpayer Assistance):** Features sections for 'Empresas por tamaño', 'Empresas por Sector', 'Contribuyentes Individuales', and 'Inversionistas extranjeros'.
- Virtual Office (Oficina Virtual SII):** Offers services like 'Clave Secreta y Certificado Digital', 'Declaraciones Juradas', 'Impuestos Mensuales (IVA-F29, F50)', 'Renta', 'Situación Tributaria', 'Bienes Raíces', 'Factura Electrónica', and 'Circulares y Legislación'.

 A central banner highlights the 'Plan de Lucha Contra la Evasión' (Plan to Fight Tax Evasion). The footer contains copyright information and additional links.

3. MEASUREMENT OF THE IMPACT OF INTERNET IN REDUCING ADMINISTRATIVE AND COMPLIANCE COSTS IN THE CASE OF OPERATION INCOME

3.1 Process Description

Operation Income is the mass process of information cross-referencing between the annual Income Tax return delivered by taxpayers and the information captured by the tax administration through third party agents' affidavits. The challenging of the return will follow in cases of discrepancies in the information cross-referencing process; a letter notifying the taxpayer and inviting him to correct his return in the Internet or go in person to the offices of SII on a determinate date, and, finally, the correction of the return or the clarification of the discrepancies found.

As from 1999, the SII delivered for the first time to all taxpayers the possibility of filing their Annual Income Tax Return through Internet, giving users two options to use this channel: electronic transfer of computer files, generated by a software acquired externally and certified by the SII; and the electronic form, which had to be filled interactively by the taxpayer. At the time the third party affidavit filing through Internet was opened as well, and it was mandatory for some taxpayers to file it in this manner. During the first year of this system, a 5.2% of the total income tax returns received were performed under this modality.

Today, taxpayers have three options to file their returns through Internet: to accept or complete a return proposed by SII; fill an online electronic form; or use commercial software authorized by the SII and then send the file via Internet. Usage rates for these modalities in Operation Income 2004 were 41%, 30% and 12% respectively. The remaining 17% continued using paper.

Stages of the Operation Income Process

- **Receiving affidavits:** *The cross referencing information comes mainly from Returns that different companies and institutions must deliver each year to the SII during the month of March to inform on antecedents pertaining to taxpayers' income, such as remunerations and fees paid, interests for bank data input and the distribution of dividends, among others.*
- **Receiving Income Tax Returns:** *During the month of April, income tax returns made by taxpayers are received, and they may be filed by using the traditional method, that is, filing the income tax return form in paper to the bank or by filling an electronic form in the Internet or by using the authorized software.*
- **Cross-referencing and observations:** *Cross referencing of information follows, where the logical and mathematical consistency of the data set in the return form (*) is verified, and more importantly, the values declared are compared with information parallel to that of the affidavits. Inconsistencies detected give place to the so-called "observations", which are those differences detected in the return, some of which will be challenged.*
- **Clarification and correction of returns:** *Those returns that do not present problems during the computer review are released from the process, and the applicable refunds to which the taxpayers that reported withholdings higher than the taxes they had to pay are authorized. For their part, the taxpayers whose returns were objected during the computer verification, will receive a letter from the SII where they are advised on which are the inconsistencies found in their return and are called to appear on a determined day to the offices of the corresponding SII. In the event that there are refunds to be delivered, the amount subject to review is partially withheld. At the examination Unit, the auditor will analyze the return and the additional antecedent filed by the taxpayer. Applying the laws and provisions in force.*

3.2 Administrative Costs Reduction Estimates

From the point of view of the tax administration Internet applications for Operation Income and its mass use has been translated into significant cost reductions, mostly in the release of resources resulting from a reduce number of taxpayers visiting the offices. This has allowed the direction of resources to other activities that are more productive or add value, such as the mass examination of income tax as well as selective examination.

In this regard, it must be mentioned that the reduction in administration costs must be measured in terms of less cost that means to do the same things than before by applying the Internet. For example: when it is affirmed that thanks to the Internet the number of challenged income returns as a result of information inconsistencies, what it means is that if we apply today the same controls applied in the past, the number of returns challenged will be less than then, thanks to the better quality of information that enters through Internet. However, in absolute terms, the number of challenges today is the same or even greater than before, because more controls than before are applied, thanks to the release of resources and greater possibilities afforded by information technologies. Consequently, more or less important than the reduction in administrative costs is the benefit resulting from the new actions that can be undertaken thanks to the Internet, whether these are a consequence of the assignment of resources saved or the new possibilities that open-up with this tool.

Hereinafter a review of the different cost items that have been reduced thanks to the e-Government solutions applied to Operation Income. Herein cost estimates are presented briefly, and the details appear in Annex 2.

Costs of printing and distributing forms:

On the one hand, 83% of taxpayers that file through Internet are translated into approximately 5 million forms in paper that are no longer printed and distributed, considering an usage rate of three forms per taxpayer. On the other 100% of affidavits filed through Internet are translate into 2.5 million less paper to print and distribute. Considering unit printing and distribution costs, it is inferred that for 2004 the use of Internet meant budget savings for that line item of approximately US\$ 425 thousand, equal to 0.4% of the budget of the SII.

Costs of inputting the information, quality control of inputs and paper management costs:

When receiving returns through Internet there are important savings in paper management, input contracting services and later quality control. The cost of inputting and controlling the quality of the return form is estimated in US\$ 60 for every one thousand registries, while for affidavits it reaches US\$ 49 per every one thousand registries. With regards to paper management, which includes its handling and storage, costs have been estimated in US\$ 0.027 per paper. All this allows us to estimate costs savings for these line items in US\$ 3.4 million in 2004, which is equal to 3.5% of the budget of the SII.

Costs of visits of taxpayers to the offices:

The main administrative cost results from the reduced amount of visits of taxpayers to the offices of the SII. These declines are explained by many reasons. Firstly, better quality of information from third parties that is received electronically. In effect, this information is submitted to mathematical cross referencing and online balancing, and is received in a timely manner, therefore many summons to taxpayers are avoided to justify differences, which were basically caused by problems in affidavits delivered by withholding agents or third parties in general.

Second, tax returns sent electronically are also submitted to online controls that avoid mathematical and balancing mistakes, reducing to zero the possibility that a taxpayer will be summoned to correct a mistake of this nature, as it happens when filing in paper, where taxpayers run the risk of committing involuntary errors such as mistakes when inputting forms. In evidence thereof, it is important to mention that between 1999 and 2004 balancing mistakes in forms have been cut in half, passing from 40 thousand to 20 thousand, in spite of the fact that the total number of returns have increased in 13% between both years.

Third, to put at the disposition of taxpayers income antecedents that are in the hands of the SII reduces voluntary or involuntary information omissions, which gives place to objections to returns and later to summons.

If the number of returns challenged during 1999 and 2004 is compared, including only information cross-referencing common for both years, it can be observed that the same has declined since in 26% of the total returns in 1999 to a 13% in 2004. But not only do

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electronic returns have lower objection levels than in 1999 (12% against 26%), but returns filed in paper (17% against 26%), which shows the positive impact of the improved quality of the information from third parties on returns filed in both means (see Annex 2).

On the other hand, Internet also helps to reduce taxpayer attention costs in those cases in which, in spite of the better quality of the information and the presentation of a proposed return, there are discrepancies between the return filed by the taxpayer and the information that the SII has. In these cases, there is the option to electronically rectify, without having to go to the offices of the SII. Approximately, a third party of corrections are done electronically, reaching 44 thousand during the last year.

It has been estimated that the attention of a taxpayer at the offices of the SII has an average cost of US\$ 33. Adding to this cost the unit cost of summons avoided thanks to the Internet, estimated cost savings for this line item are in the amount of US\$ 10.3 million in 2004, which is equal to 10.8% of the budget of the SII.

Table 1
Administrative Cost Reductions Attributed to Internet – Summary

Cost Item	Year 2004		Potential (100% Internet)	
	In Thousands US\$	% Of the Budget of SII	In Thousands US\$	% Of the Budget of SII
Printing and distribution of forms	425	0.4	505	0.5
Input and papers management	3,383	3.5	3,553	3.7
Examinations and corrections at the offices	10,293	10.8	11,192	11.7
Total	14,101	14.8	15,250	16.0

3.3 Compliance Costs Reduction Estimates

The high rate of use of return services and electronic payment of the Income Tax, which has reached 83% of the returns in 2004, is a reflection of the positive evaluation of taxpayers regarding the lower compliance costs presented by this alternative. These lower costs results, first because of savings in the time required to perform the activities of preparing and delivering the information, which is evident for at least 40% of taxpayers that receive from the SII a proposed return, because in most cases taxpayers just have to review and accept the proposal.

Second, less number of summons to the offices of the SII, as a result of better quality information and taxpayers have the possibility of accessing third party information, all these aspects were mentioned in the foregoing section, also imply saving for taxpayers, mainly in time for proceedings. Even when discrepancies occur in information cross-referencing, taxpayers have the possibility of correcting their returns through Internet, reducing the time necessary to perform these proceedings.

Third, electronic information is available to the SII almost instantly, unlike information in paper, which must undergo a long reception, input, validation and loading process, which takes around 25 days. This means that those taxpayers that use Internet can access refunds in advance, when their account payments surpassed taxes declared.

Furthermore, those taxpayers to who the SII delivers a return proposal have been freed of the need to hire tax advisors or resort to the assistance of experts, which was frequent, mainly due to the growing complexity that the Income Tax Law has experienced.

Finally, proposed returns as well as the validations offered by electronic forms give taxpayers more peace of mind with regards to having properly complied with their tax obligations, reducing the uncertainty produced by the expectation of being summoned to clarify differences and submit to an examination to have to pay fines for involuntary mistakes or omissions.

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The quantification of these savings is a task of complexity greater than the quantification of the administrative tasks. However, the SII has partially quantified the items pertaining to time reductions in returns and the correction of returns, which at least gives an order of magnitude of these benefits.

A compliance cost measurement project for individual income tax is currently underway, its main objective is to reasonably measure cost differences between individuals using electronic means versus those that decide for paper. As part of this project, a pilot survey was performed on a small number of people, with the purpose of standardizing a definite survey. Results indicate that, on average, those surveyed indicate that they saved 2.25 hours in the proceedings of carrying out their return and US\$ 6.3 in direct costs. If we assign to time savings the value of the average income per hour for those using Internet, it is estimated that compliance cost reduction for this line item is of US\$ 25.9 million for 2004, which is equal to 2.56% of the personal tax collection.

On the other hand, according to examination management statistics, the attention of a taxpayer with his return challenged, takes on average 2.9 hours, two thirds of which happen with the taxpayer's presence, which is 1.9 hours. Supposing these time savings for each taxpayer that declares individual income tax and assigning to each hour the value of average income of those who correct, savings are estimated in US\$ 0.4 million for this line item, which is equal to 0.04% of the collection.

Table 2
Compliance Costs Reduction in Personal Taxes
Attributable to the Internet

	Filing	Correcting	Total
Average time savings (hours)	2.25	1.92	
Average value per hour (US\$/hr)	4.1	5.2	
Average time saving (US\$/filers)	9.2	10.0	
Average savings in direct expenses (US\$/ filers)	6.3		
Total average savings (US\$/ filers)	15.6	10.0	
Number of filers through Internet	1,663,720	43,750	
Estimated Total Savings (US\$)	25,894,755	435,610	26,330,364
Collection percentage	2.56%	0.04%	2.60%

Summary Chart: Internet Benefits of Operation Income	
Compliance Costs	Administrative Costs
<ul style="list-style-type: none"> <input type="checkbox"/> Decline in the time required to prepare the return. <input type="checkbox"/> Decline in the time required to correct the return <input type="checkbox"/> Less likelihood of receiving summons or be submitted to an examination, as a result of: <ul style="list-style-type: none"> o Better quality in the information provided by withholding agents and third parties o Logic controls, which avoid mathematical or balancing mistakes. o Fewer omissions, upon having access to the information that the SII has on personal income. <input type="checkbox"/> Less uncertainty on the destination of the return (psychological cost) <input type="checkbox"/> Less expenses in tax advisory services. <input type="checkbox"/> Timely refunds. <input type="checkbox"/> The possibility of filing and paying 24 hours a day. 	<ul style="list-style-type: none"> <input type="checkbox"/> Less form printing and distribution costs. <input type="checkbox"/> Less costs for inputting the information and quality control of inputting that information. <input type="checkbox"/> Less number of attention services at the offices and the associated costs, as a result of: <ul style="list-style-type: none"> o Better quality information provided by withholding agents and third parties. o Logic controls that avoid mathematical or balancing errors. o Fewer omissions, upon having access to the information that the SII has on personal income. o The possibility of correcting the return on Internet.

4. ELECTRONIC INVOICE, FEES RECEIPT AND BEGINNING OF ACTIVITIES THROUGH INTERNET: IMPACT ON COST REDUCTION

4.1 Electronic Invoice

Description of the electronic invoicing model:

Around mid- 2002 the SII requested a group of companies to form a public-private alliance to undertake one of the most challenging technological projects of the most recent years: the implementation of the electronic invoice, undoubtedly, the most sophisticated offer and of the greatest impact for e-Government. The electronic invoice model, which is placed at the service of the productive sector and the community in general, is also directed to branch out the experience of the SII to the rest of the public sector and generate demonstration effects that enhance similar developments in other fields. At the same time, it constitutes a cutting-edge development, which illustrates how this sector can also be a catalyst and advancement agent for the modernization of the private sector.

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The importance of implementing a system that makes possible operations with the electronic invoice comes from the undeniable need to grant legal tax validity to the electronic copy of purchase tax documents such as invoices, credit notes, dispatch guides, because in this manner the operations of the SII and the businesses is optimized.

Currently, the SII requires taxpayers that their tax documents in paper be registered and authorized prior to their use. This authorization from the SII is materialized through a stamp that the Service applies on the taxpayer's documents, prior to their use. To apply this stamp, which authorizes a pre-printed tax document to be used as a valid tax document, the taxpayer must periodically send, previously numbered, the documents that it wishes to stamp, to the corresponding offices of the SII. Regarding the storage of invoices and other tax documents, the taxpayer is required to keep for six years a paper support in the event of a possible review.

In the electronic model invoice, taxpayers can generate, transmit and store electronically their tax documents, authenticated with an electronic signature, they must also send an electronic copy of the tax document to the SII, before it is received by its recipient or used for the fiscal transportation of goods. The authorization of the pages that are used in these documents is obtained at the web site of the SII, as an alternative to the fiscal stamp.

Taxpayers enrolled in the system must store tax documents issued and received only electronically and are exempted from the obligation of storing said documents in paper in the event of a possible review from the SII. The issuing taxpayer must send the document to the recipient, manually or electronically. To the manual recipient, not enrolled in the system, it must send the representation of the document in paper, and the latter is obliged to store the same.

Reduction of administration costs:

The electronic invoice strengthens the examination control of the SII, particularly in the detection of false invoices and the illegal assignment of VAT credits. In effect the documents that are generated during company business cycles will be registered electronically in the computer information systems of the Service, allowing the realization of cross referencing of invoices and the analysis of the purchases which VAT is used as credit. In the past, these controls have been carried out only through selective audits, at a much higher cost.

At the same time, the electronic invoice allows to free resources, mainly human, which today perform document-stamping functions.

Reduction of compliance costs:

The electronic invoice facilitates tax compliance, since it enormously simplifies obligations associated to the use of tax documents to support the commercial transactions of the economic agents. It eliminates document printing costs as well as costs associated to stamping, document transportation costs, proceeding times and human resources used in this activity, among others; it simplifies the storage of the same; loss of VAT credit caused by documents received that are lost; and the payment of fines for eventual loss of stamped documents that have not been issued.

The decline in the average cost for the generation of an invoice is estimated to reach one third in savings associated to processes such as: pre printing of numbered stub books with an original and copy, having to go to the offices of the SII to stamp documents, the manual delivery of documents issued (letters) and, document storage costs.

The Chamber of Commerce of Santiago (CCS, in Spanish) estimates that the savings to the country as a result of the mass use of this new electronic model will reach US\$ 300 million, annually, which is equal to 0.5% of the GDP or one third of the annual investment in information technologies and communications (see Table 3).

Table 3
Costs of Issuing Documents per Taxpayer (US\$)

Cost Item	Paper	Electronic	Savings
Document printing	165.7	30.0	135.7
Document stamping	5.7	0.0	5.7
Processing	172.9	110.0	62.9
Physical dispatch	657.1	0.0	657.1
Physical storage	247.1	0.0	247.1
Loss of stamped paper	81.4	0.0	81.4
Internet connection	0.0	47.1	-47.1
Electronic storage	0.0	68.6	-68.6
Total Cost	1,330.0	255.7	1,074.3
Number of Taxpayers			296,000
Total Savings (in millions US\$)			318.0

Source: Prepared based on estimates from the Center for Digital Economic Studies, Chamber of Commerce of Santiago.

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Reduction of transaction costs:

It is important to mention that some e-Government applications produce benefits for the private sector that go beyond the tax field, which is reflected in the reduction of the *transaction costs* between the economic agents in the business cycle, coming from the increase in productivity in the companies. The electronic invoice is an example of this.

In effect, the electronic invoice improves the efficiency of the business cycles. This is manifested in processes such as reception and dispatch of goods logistics, the automation of the business cycle, storage of information, document search times; invoice comparisons and balancing with purchase orders and the reduction of the administrative burden of the business cycle.

In the case of the reception and dispatch of goods logistics, companies can directly update their stock without having to carry out any input. Electronic transfers mean the elimination of the inputting process when receiving documents, hence improving the quality of the information. Regarding the automation process, sales and distribution cycles can be improved through technological changes and practices. Regarding search times, the new system that incorporates magnetic media, allows to have access to a document in only seconds, while the recovery of a document in paper can take up to four days from a physical warehouse.

Electronic invoices also improve customer and vendor proceedings. If there is authorization from the customers, companies can omit printing their invoices and tickets by publishing the documents in their web sites. Companies can also opt for billing at the sales point, which represents an advantage for many companies.

The electronic invoice will promote e-commerce, since it allows the integration of current e-commerce platforms with electronic tax payments and operations; it will also make possible the creation of a base platform for electronic factoring, which will drive and make feasible access to financing for small and mid-size businesses.

**Summary Chart:
The Benefits of the Electronic Invoice**

Compliance Costs	Administrative Costs	Transaction Costs
<ul style="list-style-type: none"> <input type="checkbox"/> The elimination of the costs of stamping invoices. <input type="checkbox"/> The elimination of the costs of printing invoices. <input type="checkbox"/> The elimination of the costs of storing invoices. <input type="checkbox"/> Verification of the validity of invoices received 	<ul style="list-style-type: none"> <input type="checkbox"/> Cost reduction in the detection of false invoices. <input type="checkbox"/> Release of resources directed to document stamping. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improvement in the efficiency of business cycles. <input type="checkbox"/> Improvement in customer and vendor management. <input type="checkbox"/> Promotes e-commerce.

4.2 The Electronic Fees Receipt and Independent Professionals Beginning Activities

On October 2003, the Beginning of Activities (IA, in Spanish) was implemented for independent professionals through Internet and the Electronic Fees Receipt (BHE, in Spanish), which allows taxpayers that receive remuneration for the independent practice of their career the possibility of issuing their fees receipt through Internet.

Those individuals that do not use Internet services and wish to perform IA proceedings to formally practice an activity of the second category, must go to the offices of the SII and deliver the IA form, which may be previously downloaded from the web or request the same and fill at the SII Offices. In the same transaction, they must request the stamping of their stub book, which had to be made previously at a printing shop. Both proceedings take some 30 minutes, in addition to travel times.

Taxpayers save time and money when they use Internet, since it is no longer necessary to visit the SII Offices to perform IA and receipt stamping proceedings, or incur in document printing costs. Furthermore, it is important to mention that this system once it is used does not obliged taxpayers to continue issuing receipts electronically, since users can continue using, in parallel paper receipts. Finally, it also allows taxpayers to inquire on the SII web page the summary of the BHE's issued and they can furthermore revise their authenticity.

Regarding the reduction of administrative costs, the IA via Internet and the BHE have freed human and financial resources that will assigned to the attention of these activities at the SII Offices, redirected to examination related activities.

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Concerning the rate of use of these services, it is important to mention that on April 2004, 41.7% of the total IA had been done through Internet.

Summary Chart: Benefits of Beginning of Activities and Electronic Fees Receipts	
Compliance Costs	Administrative Costs
<ul style="list-style-type: none"><input type="checkbox"/> Reduction in the time required for beginning activities.<input type="checkbox"/> Elimination of the cost of having to visit the SII Offices to stamp documents.<input type="checkbox"/> Elimination of printing costs for fees receipts.<input type="checkbox"/> The possibility of being able to perform proceedings 24 hours a day.	<ul style="list-style-type: none"><input type="checkbox"/> Release of human resources assigned to beginning of activities tasks as well as document stamping.

5. FINAL COMMENTS

Electronic Government solutions implemented by the SII during the different stages of taxpayer tax compliance have rendered important benefits, in terms of administration cost reduction as well as compliance costs.

It is estimated that Internet applications will generate for 2004 administrative costs' savings in the amount of US\$ 14 million in the case of Operation Income, which is equal to 14.7% of the budget of the SII for the same year. Whereas, it is estimated that it will produce reductions in individual income tax compliance of at least US\$ 26 million, this figure represents 2.6% of the collections.

This paper has not mentioned the necessary investments for the implementation of Internet applications for Operation Income, because most computer investments have multiple purposes, which makes difficult the assignment to a specific application. Notwithstanding, it is important to mention that all computer investments made between 1998 and 2001, which is the period where most of the main developments linked to Operation Income are centered, do not exceed US\$ 20 million. Consequently, the investment in this project has been profitable even from the standpoint of social evaluation, integrating benefits for taxpayers and the private sector at-large.

It is important to mention that some e-Government applications produce benefits for the private sector that go beyond tax fields, which is reflected in *transaction costs* reductions between the economic agents during the business cycle, resulting in the increased company productivity.

Succinctly, there are many reasons to continue promoting e-Government at SII, which is summarized in the strengthening of the three pillars of the current management: Contribute to Economic Development, Facilitate Tax Compliance and Strengthen Examination Controls. The growing preference of taxpayers for these solutions is a sample of being on the right road.

ANNEX 1**E-GOVERNMENT APPLICATIONS OF THE SII****(1) Information Services Offered to Citizens**

Information services are those consisting in the publication of antecedents of different nature, considered useful for users accessing the Web. In this category, it is important to mention, among others, the enactment of legislation, circulars, resolutions and jurisprudence at tax subjects, assistance information for different types of taxpayers, using classification pertaining to the size of the company, economic sectors, special regimes and franchises, among others, assistance information grouped by proceedings, etc.

(2) Transaction Services at the Virtual Office of the SII

Transaction services are those where there is a flow of information in two directions – from the Tax Administration to the user and vice versa – generally with access to institutional databases. The following applications are offered in this scope:

(i) Tax returns and payments

Receipt of Income Tax Returns: The taxpayer can present its Income Return through Internet be it by accepting the proposed return built by SII, or by completing an on-screen form. The taxpayer will receive its Return Certificate if the return is “without payment.” Otherwise, the payment forms available to continue with the return will be obtained until the corresponding certificate is obtained. Annual income tax returns may be presented via Internet within the legal term, as well as outside the term.

Receipt of Monthly Tax Returns: These applications allow the filing of returns, to pay, inquire and rectify tax returns with monthly expirations, such as VAT, income tax withholdings and provisional payments among others. To file returns, a form may be completed on-screen or the return may be built with free software from the SII and then send it via Internet.

Receipt of Information Sent by Third Parties: Affidavits for Operation Income contain information that withholding or information agents deliver to the SII on income perceived by third parties and withheld taxes, as

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for example the payment and withholding of taxes for fees or salaries, the payment of bank interests, the purchase of shares etc. These returns may be filed via Internet, by directly completing an on-screen form. The same options are available to correct forms that have been previously filed.

Correction of Tax Returns: This option allows the on-screen correction of the original return filed, when it contains inconsistencies or mistakes that have been detected by the taxpayer or the SII. Through Internet, it is possible to correct or rectify Tax Returns, monthly tax returns and Affidavits.

Tax payments: The SII puts at the disposition of taxpayers three alternatives to electronically pay taxes: online payment with direct charges to the current account, online payment with a checking account through an authorization to the bank or online payment with a credit card.

(ii) Other online tax proceedings

Electronic Invoicing for authorized customers: Corresponds to the most sophisticated offer and of greatest impact, which objective is to provide a system that grants legal tax validity to electronic invoices as a means to support commercial operations between taxpayers, and, with this replace paper invoices which is mandated by the laws in force. The electronic invoice will allow the improvement of taxpayers' business processes, and will substantially reduce invoicing processing costs and will facilitate the development of e-commerce in Chile, contributing in this manner to drive the technological agenda and the modernization of the country.

Beginning of activities and issuance of fees receipts of independent professionals: In October 2003 the Beginning of Activities for independent workers through Internet and the Electronic Fees Receipt was implemented, allowing taxpayers that receive remuneration for the independent practice of their career the possibility of issuing their fees receipt through Internet. Those who select this system free themselves from the periodical obligation of printing and stamping receipts.

Modifying the owner of a Real Estate: Through the web site of the SII, the taxpayer can perform the change of name of an owner of a Real Estate, if it is not registered in the Service or if there is some kind of

mistake. Through Internet taxpayers can also modify the Postal Address of a Real Estate to receive mail, for example contribution quota notices.

Change of domicile for professionals: Taxpayers that are individuals, subject to the payment of taxes as provided for in Category Two of the Income Law (professionals that issue fees receipts), may inform of the change of domicile through the Category 2 Taxpayer Change in Domicile (professionals) qualified at the SII Web site.

Authorization of rolls to machines: This option is available at the web site and it allows taxpayers to send applications to use roll number ranges in [cash] registry machines authorized to issue documents through mechanized means.

Obtaining a Secret Password online: To guarantee the technical and juridical certainty of the identity of a taxpayer that accesses the Web site of the SII and at the same time, allow the realization of online contacts and information transfers confidential, in an encrypted and safe manner, there are at the same time Digital Certificates or Secret passwords for access.

Position Openings for Personnel: The SII has established in personnel selection processes personal merits and the realization of open contests. Therefore, the manner in which great transparency is assured throughout the entire process is by means of a public call through its Web site and by making available a form developed for such purpose.

Online Complaints: An application that allows taxpayers, prior identification with their RUT and password, denounce illegal tax activities that they have witnessed.

State your opinion on the quality of service of the SII: This is an option available at the Web site of the SII where taxpayers can deliver information for feedback on the quality of the system, con the actions and the attention of the SII officials given to the users.

(3) Follow-up Service on the Tax Situation

Status of returns filed: This option is available at the SII web site; it allows taxpayers to know the situation and history of their tax returns, monthly taxes (VAT) and affidavits filed. That is, the taxpayer can be informed on whether if the SII has accepted its return or has made an observation and in this last case, it can have access to other information

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related to the return such as proceedings, observations and notice letters. This guarantees that the information is updated as well as solves any doubts that the taxpayer can have after filing a return through Internet or in paper.

Inquiries on the antecedent of a Real Estate: Through this option available in the Real Estate section of the Web site, the general antecedents of a real estate and detailed information on the cadastre of its property may be inquired.

Certificate of the Fiscal Appraisal of a Real Estate: through this option a simple fiscal appraisal can be obtained, with general information on a property, or with minute details, such as the extension of the land, the type of constructions, etc.

Inquiries on the Personal tax situation: By inputting the password, the taxpayer can inquire certain antecedents related to its tax situation, such as registered domiciles, economic activities registered, pending payment drafts, authorized documents, etc.

(4) Third Party Inquiry Services

Inquiries on the tax situation of third parties: This option delivers a description of the tax situations that affect the taxpayer inquired, excepting those that are of confidential in nature.

Verification of electronic documents received by the SII: Taxpayers can deliver to third parties such as banks or other companies a certificate with five codes. With these five codes, third parties can obtain from the SII web site a copy of the taxpayer's Income Tax Return.

Authorization Information on documents stamped at the SII: This option allows verification through the Internet on whether if the number of a determinate document issued by the taxpayer is within those authorized or stamped by the SII.

Vehicle appraisal: This option allows inquiries on the Fiscal Appraisal values of light vehicles (automobiles, pick-ups and others) and heavy vehicles (buses, trucks). It is also feasible to request the review of the appraisal of a vehicle in particular and inquire on the status of requests performed.

Summary Chart:
Main Applications Available at the Web Site of the SII

Type of Service	Application Available
(1) Information Services offered to citizens.	<ul style="list-style-type: none"> - Circulars and legislation - Help information grouped by type of taxpayer <ul style="list-style-type: none"> o Companies by size o Companies by sector o Individual Taxpayers o Foreign investors - Help information grouped by proceedings <ul style="list-style-type: none"> o How can I ... ? - Relevant information on the tax field <ul style="list-style-type: none"> o Relevant news on the tax field o Great issues of the Law on the struggle against tax evasion and avoidance
(2) Transactional Services	<ul style="list-style-type: none"> - Tax returns and payments <ul style="list-style-type: none"> o Receipt of Tax Returns o Receipt of Monthly Tax Returns o Receipt of the delivery of Information on Third Parties, o Tax Return corrections o Income payments, Monthly taxes and contributions. - Other online tax proceedings <ul style="list-style-type: none"> o Electronic Invoice for authorized customers. o Modify the name of the owner of real estate. o Change of domicile for professionals. o Authorization for machine rolls. o Obtain passwords online. o Personnel job openings. o Online complaints o Your opinion on the quality of the service of the SII.

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(3) Tax situation follow-up services	<ul style="list-style-type: none">- Status of the returns filed.- Inquiries on the background of a real estate.- Fiscal Appraisal Certificate for a real estate.- Inquiry on the personal tax situation
(4) Inquiry services for third parties.	<ul style="list-style-type: none">- Inquiry on the tax situation of third parties.- Verification of electronic documents received by the SII.- Information on the authorization of documents stamped at the SII.- Vehicle appraisal.

ANNEX 2

**DETAILED CALCULATION OF ADMINISTRATIVE COST
REDUCTION IN OPERATION INCOME**

Table 1
**Estimates for Savings in the Cost of Printing
and Distributing Forms**

	2004	2003	2002	Potential (100% Internet)
Income Tax Forms filed via Internet	1,663,720	1,403,193	1,132,933	2,004,482
Paper Form Costs (US\$)	0.079	0.079	0.079	0.079
Consumption Rate	3	3	3	3
Savings (US\$)	392,638	331,154	267,372	473,058
Affidavits filed through Internet	877,311	744,033	644,695	877,311
Paper Form Costs (US\$)	0.012	0.012	0.012	0.012
Consumption Rate	3	3	3	3
Savings (US\$)	32,168	27,281	23,639	32,168
Total Savings in the Printing and Distribution of Forms (US\$)	424,806	358,435	291,011	505,226

Table 2
**Estimates for Savings in the Cost of Inputting
Information and Paper Handling**

	2004	2003	2002	Potential (100% Internet)
Income Tax Forms filed via Internet	1,663,720	1,403,193	1,132,933	2,004,482
Average unit cost of inputting information (US\$/form)	0.474	0.474	0.474	0.474
Administration unit costs (US\$/Form)	0.027	0.027	0.027	0.027
Savings (US\$)	833,848	703,273	567,820	1,004,636
Affidavits filed through Internet	877,311	744,033	644,695	877,311
Average unit cost of inputting information (US\$/form)	2,878	3,347	S,I,	2,878
Administration unit costs (US\$/Form)	0.027	0.027	S,I,	0.027
Savings (US\$)	2,548,764	2,510,484	S,I,	2,548,764
Total Savings in Printing and Distributing Forms (US\$)	3,382,612	3,213,757	567,820	3,553,400

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Table 3
Estimated Savings in the Cost of Taxpayer Attention
at the Offices of the SII Resulting from a
Reduced Number of Returns Challenged

	1999	2004		
		Paper	Internet	Total
No. of Total Returns (1)	1,781,423	341,388	1,663,720	2,005,108
No. of Returns Challenged (2)	464,702	58,616	196,440	255,056
Challenged / Total (3)	26%	17%	12%	13%
Difference 2004-1999 (4)		9%	14%	13%
Challenges avoided thanks to the Internet (1) x (4)		30,438	237,558	267,996

Table 4
Estimates Savings in the Cost of Taxpayer Attention
at the Offices of the SII Resulting from Electronic Corrections

	2004	Potential (100% Internet)
Challenges avoided thanks to the Internet	267,996	286,304
Corrections via Internet	43,239	52,095
Summons avoided	311,235	338,399
Average cost of a summons (US\$/Attention)	33	33
Cost Savings (US\$)	10,293,275	11,191,637

Case study

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THE USE OF INTERNET TO REDUCE COMPLIANCE AND ADMINISTRATIVE COSTS

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(CIAT)

CONTENTS: 1. Introduction.- 2. Possibilities of Application of Web Technology to Tax Administration Processes.- 3. The Main Cost Factors.- 4. Analysis of Processes and their Cost Factors.- 4.1. Receipt of returns process.- 4.2. Tax collection process.- 4.3. Process of authorization and gradual delivery of invoices.- 4.4. Information Report on third-party transactions.- 4.5. Clearance Certificates or tax regularization certificates.- 4.6. Use of information. Inquiries.- 5. Optimization of Processes with the Aid of the Web Technology and Control of the Cost Factors.- 5.1. Key factors for the optimization of processes and reduction of administrative and compliance costs.- 5.2. Services through the Internet portal.- 5.3. The importance of the taxpayer file and the electronic identification in the Web strategy.- 5.4. The case of returns filing and payment through Internet.- 6. Conclusions.

1. INTRODUCTION

Topic 2.3 of this technical conference analyzes the use of Internet for reducing compliance and administrative costs.

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On previous occasions we have stated that no technological tool exceeds by itself, or can replace, a clear control strategy that is based on systematic information analysis processes that may guide the activities toward the most relevant cases of relative noncompliance and which may be accompanied by a good operational planning system to prioritize the different workloads.

In this case, no technology can substitute a good integral management model based on appropriate organizational and administrative schemes, within the framework of an institution oriented at customer service and which, additionally, is aligned with the permanent optimization of resources.

Nevertheless, one must consider that the adequate incorporation of information technology may significantly contribute to improve performance and to achieve greater efficiency in the processes and effectiveness in the control of evasion and taxpayer service.

The purpose behind the introduction of new technologies is not specifically to reduce costs, but rather to render the processes more efficient and effective. Accordingly, as a result of such optimization there will be significant reductions in costs.

For example, the establishment of the income tax electronic filing process aims to improve the service, avoid information errors, gain opportunity in the provision of data, quality of information and increase the immediacy of the control process. Its specific purpose is not to reduce the cost of paper.

2. POSSIBILITIES OF APPLICATION OF WEB TECHNOLOGY TO TAX ADMINISTRATION PROCESSES

Shown below are some of the advantages of using the Web technology for improving the tax administration processes:

- Allows for greater simplification of procedures to the extent one can integrate different applications, different databases, as well as different information.
- It is relatively easy to dispense with some physical documents, inasmuch as the information is within the system and it may be consulted, validated and verified. Thus, for example, a clearance

certificate may be easily obtained via Internet, through an electronic request internally validated by the system and if appropriate, the respective document is issued or else, it may be consulted through the same means by the interested third party.

- Allows for generating significant on-line assistance on several issues, whether tax or legal inquiries, or interactive aids, among which may be included the provision of software products that may already have good validation bases.
- Increases the speed of transactions and affords permanent presence 7 days a week, 24 hours a day, without incurring in personnel costs for these services. This implies that all taxpayer assistance services may be permanently available with a very broad coverage. It is enough to have a computer and a telephone line through a MODEM, or a special wide band service to connect oneself at any time with the administration and obtain on-line assistance, taxpayer assistance, information on the tax situation, or to make payments or file returns.
- The information flowing toward the taxpayer is instantaneous and reflects exactly the data which the administration has available. Likewise, for the tax administration, the information is instantaneous.
- One can substitute physical transactions with electronic transactions. It is not necessary to submit a signed physical form. A request may be made via Internet, following validation of the taxpayer's identification.
- It allows for substituting paper with images or substituting paper with digitalized information. When a form is submitted by a taxpayer via Internet, it may not exist physically but; nevertheless, the information may be kept in the database and the form may be reconstructed through a simple inquiry as if it would have been physically and without the need to make copies. Forms that may have been submitted on paper may be scanned to keep their images for subsequent inquiries.
- Allows massive distribution of information. Through Internet, the administration may reach many taxpayers instantaneously and simultaneously. In this way, a new procedures, a new law, or a new regulation whose conventional dissemination would involve significant costs and a long period of time, may easily be made

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available to the taxpayers almost instantaneously at the time they are produced.

- Generates on-line assistance, an instruction, or a new return form, it is fast and simple and many are the taxpayers who may have immediate access to it.
- Multiplies the network of access to the information. Every computer with access to Internet is potentially a point of access to the Administration and transactions can be carried out from it.
- Allows the combination of several levels of service providers and collaborators of the tax administration such as, for example, banks, financial entities, experts on tax subjects such as accountants, tax reviewers.
- There are many alternatives for combining efficient services on the basis of the tax administration system, so that the taxpayer will not have to physically go the administration.
- Internet allows greater quality of information, better response time and, of course, greater effectiveness of actions. It allows for real time controls.
- It also permits development to maximum capacity of the distance training strategy. It is a qualified instrument that allows the integration of several multimedia elements (video, audio), and requires no synchronism between the different participants in the process, it being, in addition, executed in real time for the end user.
- It assists in the dissemination of information to administration officials. Manuals and instructions that may be placed in Intranet, may be easily updated and may be used in all offices for different purposes, either inquiries or training processes.
- Likewise, it allows for the display of news, specific instructions, use of shared legal data bases, in order that officials may have access to them for inquiring about different topics dealing with legislation, concepts, interpretation or doctrine.

Thus, Internet allows the implementation of a series of practical solutions. Cost reduction will depend on the optimization of the technology for simplifying the integrated processes, to ensure that the taxpayer will

require less time in the preparation of information, and also that he will have less requisites to fulfill and less documents to submit when carrying out transactions with the tax administrations.

3. THE MAIN COST FACTORS

As for compliance with tax obligations by the taxpayers, the most important cost factor is the complexity of the tax regulations, followed in order of complexity by the requirements of the administration for exercising control and the various processes and procedures that may be established in the treasury-taxpayer relationship.

When the rules for the application of taxes are simpler, technical, efficient and coherent at different legal types and levels, are adequately organized, systematically issued and sufficiently disseminated, compliance will accordingly result in lower costs.

The dispersion of rules, contradiction between normative levels, the ambiguous sense of its contents require the use of specialized knowledge and resources for their interpretation, understanding, explanation and application, all of which results in greater compliance costs.

In the same sense, the tax procedure may become an important factor in compliance costs. If the official assessment of the tax and the legal discussion involve multiple stages, multiple instances at different levels of the tax administration (administrative action, legal action) and the normative framework allows its delay through time, the taxpayers and the administration itself must incur in significant legal costs.

The administration's requirements for exercising control are also an important source of costs:

- Demands with respect to the presentation, documentation and verification of tax adjustments to harmonize the accounting aspects with the taxation aspects;
- Requisites for registering at the TA the fiscal records and the requisites regarding their maintenance and the recording of transactions;

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- Demands with respect to procedures that involve some type of registration or presentation of documents before the TA;
- Constant practice of requesting verifying documents even for the most simple procedures; and
- In general, the application of bureaucratic criteria in the different processes that involve obtaining documents, signatures, seals, authorizations from officials.

This group also includes aspects dealing with reporting detailed information on their own or third party transactions. Even though they may be a key factor for control purposes, on many occasions they become the taxpayer's obligation to report in multiple forms, and through several means and for different offices, data whose fiscal significance is similar, that in many cases will not be processed or whose practical usefulness is diminished by the quality in processing or what is worst, data that in any way will not be useful or consistent for the required purposes.

In this context, in addition to the direct and tangible costs which all the aforementioned situations originate, there is one of the main and most valuable resources: The time of the taxpayers, officials, specialists, legal counsel, etc.

As for the TA, it should be mentioned that the same previously indicated factors become administrative costs and to these one may add those dealing with such functions as assistance to the public, taxpayer services and the exercise of control activities.

An important consideration is that many of the factors that originate the costs incurred by the taxpayers in fulfilling their obligations are also factors that involve costs for the TA, as is the case of the complexity of tax norms, control requirements and processes and procedures. Some of them are further expanded inasmuch as one does not only incur in costs for their design, implementation, dissemination, but also for ensuring their compliance.

4. ANALYSIS OF PROCESSES AND THEIR COST FACTORS

Continuing with the analysis of cost factors, shown below are several tax administration processes selected because of their impact on the

taxpayers, the volume of transactions generated and the importance of their cost factors.

All of them have in common the use of significant amounts of human resources, stationery, office facilities for assisting the public, provision of office furniture and equipment supplies, and computer equipment.. Simultaneously, there is another type of expense related to public services or lease of office space.

We will discuss the process for filing and receiving returns, the tax collection process as well as processes requiring personalized taxpayer assistance, among which worth noting are the activities involving registration, formal compliance and the presentation of documentary evidence to the TA.

We will also include the processes for the provision and receipt of third-party information.

4.1. Receipt of Returns Process

Traditionally, this process has been carried out through manual tax return forms prepared directly by the taxpayers, based on some guides and instructions provided by the administration. These forms are usually received at the administrations or through the banks.

The administrative costs of the process are associated to:

- The design of the forms and the definition of the data that should be requested, balancing the needs for simplification with the needs for control information.
- Physical production of the forms, which includes the elaboration of artworks, proofs, printing and the production itself. Usually, the amount is associated to the distribution channels and their effectiveness for guaranteeing that each taxpayer may have access at least to one copy.
- The distribution to the taxpayers, through several channels such as the tax administration offices, the banks, professional associations, businessmen or industrialist associations, and delivery at the fiscal domiciles.

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- The preparation of the forms by the taxpayers, filling out all the required sections, calculating the mathematical formulas and correctly determining the bases, taxes and amounts to be paid.
- The filing and receipt of forms, either at the tax administration's own offices, at the banks or by mail. In every case there are several associated costs that vary, depending on the timeliness with which the information is required, whether the process is completely manual or automated, the real time assigned to every individual transaction and the level of interactivity.

The first factor to be considered is the transcription of data from the physical form. The information must initially be digitalized, that is, it must be placed on magnetic media with total accuracy of the contents filed by the taxpayer, regardless of whether they include errors or not.

The second factor is the evaluation of quality, since it is common in countries having similar problems to find mathematical errors caused by the taxpayer himself. To this one must add the errors made during transcription.

The filing of a tax return form at a bank or an administration has as initial cost factor the accurate digitalization of the information and as second factor, the detection and correction of errors.

Traditional transcription methods result in not having the information available in a timely manner and likewise, without good quality, thus generating a significant amount of reprocessing of information. To this, one must add the tremendous opportunity cost of not having the information.

How much does it cost a tax administration to have the information immediately with the corresponding returns loaded in its databases to generate the corresponding analysis, current account, recovery and examination processes.

In many cases, the information from the tax returns filed is finally available after many months and following significant efforts for having reasonable quality levels.

In this same process, an important aspect to consider is the staff devoted to assisting, whether it is from the administration or the

banks. To this one must add the requirements of the assistance and receipt offices, equipment, supplies, and computers.

One must necessarily consider jointly the time devoted by the officials and taxpayers in the process.

- The administration of the physical documents as of their receipt, organization, sending to the technical files, storage and manipulation and the process of inquiry and recovery for control purposes.

4.2. Tax Collection Process

In the tax collection process as well as in the receipt of tax returns, there are usually two trends. One is the collection of taxes by the administration itself by means of its cashiers and the other, is the collection through banks. In some cases, bank collection also involves the receipt of physical tax return forms, while in others it is simply the processing of payments.

In the case of administrations directly receiving payments, administrative costs of the process are associated to the management of money collected and consider such aspects as:

- Availability of staff in sufficient numbers for adequately assisting the public, physical facilities, furniture and equipment.
- The management of cashiers, control over closing of cashier's desks, control over closing of offices, conciliation between cash collected and the amount available at the cashier's desk on a daily basis.
- Transportation of daily collection to the bank, whether done by the officials themselves or through specialized services for transporting valuables.
- Physical security and insurance coverage for theft or loss.

The costs involved, the specialization of the function, assistance to the public and the queues generated, would make the administrations consider the transfer of collection to the banking network. Additionally, the transfer to the banking network increases the number of points of assistance and represents an additional facility for taxpayers and users.

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Perhaps the only advantage in making it directly in the administration is that the transaction is directly recorded in the information system, on real time and allows the data bases and current account to be automatically updated.

This is particularly important, for example when a taxpayer must make a payment for removing the embargo, or when a taxpayer needs to make a payment for purposes of obtaining a clearance certificate or a tax regularity certificate.

A variation of this process was the introduction in the past decade, of specialized processes for filing returns and receiving payments from large taxpayers. By means of this scheme all the information from the tax returns of a small but important segment of taxpayers and the corresponding collection is registered in real time, with the physical presence of the taxpayers at the administration offices.

In the case of administrations collecting through the banks, the administrative costs of the process are associated to:

- Payment to the banks for the service rendered.
- The time elapsed for transferring the collection from the banks to the government's treasury. It is usually from 24 to 72 hours, although there are cases where it takes more than 10 days.
- The time for receiving detailed information on every payment received.
- The process of receipt of payment information, reading of magnetic media, validation, rejection and subsequent reprocessing.
- The processes for controlling the actual transfer of monies collected by each bank to the government's treasury.
- The administration of payments to banks, as well as fines and sanctions for errors or omissions.

The filing or payment at banking entities, allows for having a large number of reception sites, but on the other hand, the information is not immediately known by the Administration.

This information is reported on magnetic means, (tapes, CDs or diskettes), with the basic data on each payment (taxpayer, the tax for which payment is being made, the taxable period and the date of

collection). Once received by the administration, it is read, validated and actually loaded in the databases and the current account.

This reading and validation usually present many problems and errors that generate reprocessing, sending of complementary information, and return of magnetic means that, in turn, generate another series of problems with the taxpayers and collecting entities.

Collection through the banks generates other additional processes for the tax administrations as regards control of the collection entities. To this end, in addition to the information sent by the bank to the tax administration, the bank itself must make the transfers to the central bank or government's treasury and the administration must guarantee that all the amounts collected by the banks have been actually transferred.

The totals of daily collection by bank are compared against the reports already provided by the government's treasury to ensure their accuracy.

Nevertheless, this is a process that has significantly evolved toward a new current account concept of the banks, which considers as debits all payments that have been made by the taxpayers and as credits, all funds transfers from the banks, confirmed by the treasury. In this way, a control of balances by the banks is kept updated.

4.3. Process of Authorization and Gradual Delivery of Invoices¹

Several countries have regulations governing the invoicing procedures used by the taxpayers and the contents of the invoices to be issued. Such regulations indicate the requirements for their issuance and with respect to their contents.

Other countries have rules that oblige taxpayers to request previous and periodic authorizations for the printing and issuance of invoices. The requests are evaluated by the administration and based on the result, a specific number of invoices are authorized and the latter are assigned a correlative consecutive number. Invoices must be printed only at printing shops authorized by the tax administration and the latter are subject to compliance with some requirements. The printing shops must submit periodic reports on the work done and taxpayers can only use the invoices printed in accordance with the authorization given.

¹ For purposes of this paper, generically includes fiscal notes, sales vouchers, etc.

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Usually, these processes involve the use of manual forms prepared by the taxpayers and manual reports submitted by the printing shops, which are transcribed by the administration for data crosscheck and control purposes.

In this way, the administration controls the invoices authorized to each taxpayer and the correlative numbers that are being used. Although this system does not eliminate the possibilities of using double invoices or forging the, it is an important step for controlling vouchers.

The assignment of invoice numbers allows taxpayers to use in their documents numbers previously controlled by the TA. This is a two-way taxpayer control mechanism: on the one hand, the recording of the amounts and number of invoices to be used by the taxpayers facilitates the examination function and the cross verification of economic transactions and, on the other, allows the administration during the assignment process, to verify the behavior of the applicant and on that basis, to authorize a larger or smaller number of invoices.

Several countries, in addition to the invoices, are currently requiring authorization for the issuance and generation of such documents as bills of lading or internal vouchers, remittances for the movement of goods and with this information they undertake subsequent and physical controls of goods in transit.

Although the process of authorization and gradual delivery of invoices is evolving toward electronic invoicing, whose use will undoubtedly have significant effects as regards tax control within the coming years, in the scheme most commonly used at present by the majority of countries there are several intervening cost factors:

- The design, printing and distribution of forms.
- Assistance to the public in the transcription of the forms and issuance of authorizations.
- The management of the process for authorizing the printing shops.
- The transcription of reports from the printing shops and the detailed control of the different works assigned.
- The data crosscheck processes for individual control of the works authorized to each taxpayer.

- For the taxpayers, the main cost is in compliance with the formal requisites, the time devoted to the processing of authorizations at the TA and sending them to the printing shops.

4.4. Information Report on Third-party Transactions

The administrations have established some special procedures so that several taxpayer groups (information agents) may provide detailed information on transactions they may carry out with other taxpayers.

In recent years, the procedures have evolved toward provision by the administrations of software or the specification of some flat files that must be periodically filed by some taxpayer segments. When the taxpayers prepare the magnetic means, either through the software given them or through the flat files, this information is received just like any other return form. There is a group of officials especially designated to receive the files, to provide a voucher proving their receipt and for loading the information in the administration's databases.

In some cases, receipt is performed in real time, which means that there is computer equipment available for reading the files, making some validations and loading the data already validated in the databases.

Experience indicates that in those cases where taxpayers are requested to provide information on flat files, errors to be detected by the administration are multiplied. On the other hand, where the administration provides a software product for taxpayers to load the information (either by capturing it or loading it through the use of the same product provided), and thereby generating the file to be delivered to the administration, experience has shown that there is a significant increase in the quality of information.

The provision of software² to taxpayers has been an important milestone for those administrations that have managed to consolidate their information crosscheck processes. When a file generated by such software is read at the tax administration, there is guarantee that the information is totally structured, that a process of validation has been performed and the loading process is much simpler.

After generating the file to be delivered, the taxpayers may provide details on their transactions directly via Internet, without having to physically visit the Administration.

² In the CIAT tax management system, this application is known as Taxpayer Module for External Information or Module IE.

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A very important aspect of this process is that the administration, on receiving the data, classifies them by beneficiary and by fiscal importance, in order to have this information available for information crosschecks.

As in the previous processes, there are several cost factors intervening, which are more significant, when the information is required on flat files:

- The dissemination of the structures of the flat files that must be submitted to the TA.
- Intensive and almost permanent training of taxpayers and officials with respect to the correct way of filing the flat files.
- The activities involving receipt of the magnetic means and on-line validations for detecting errors in form, consistency of the structures and data on the headings and details, and subsequent validations for determining data consistency.
- Activities involving the returns of forms due to errors and reprocessing of the information.
- The transcription of data provided by those taxpayers who do not use magnetic means.
- Costly processes for the crosscheck of information with low reliability data due to taxpayer errors.
- Loss of institutional image due to examinations or control activities based on inconsistent information.
- For the taxpayers, investment of time and effort to generate flat files to be delivered to the administration.

4.5. Clearance Certificates or Tax Regularization Certificates

These are documents issued by the tax administration to certify that the taxpayer has no pending debts or processes with the administration. In some countries, these documents are required for undertaking some transactions such as the sale of real estate, going abroad, obtaining bank credits, and other procedures before public administration, such as the collection of invoices, bids, special registries, etc.

The process begins with an application, on which the information system performs a series of validations to determine whether the taxpayer is involved in some event that may prevent him from obtaining the certification and thereafter, the issuance of the corresponding certificate is either authorized or rejected.

This process that appears to be simple, has complex implications, because the certificates are capable of generating significant problems of administrative corruption and unfortunately, some noncompliant and dishonest taxpayers are willing to pay for the issuance of fraudulent certificates.

Seeking to neutralize these situations, through time, the administrations have generated different mechanisms such as the use of security paper, printing with special, indelible inks, of particular colors. Nevertheless, the problems have not been solved.

To this, one must add all the administrative and logistic processes required for having available the special paper, printers and other operational requirements; the need for physical custody and storage of documents with special security measures, since they are documents of some nominal value, which likewise generates constant processes of administrative control, information reports, verifications and disciplinary processes for losses and misplacements.

4.6. Use of Information. Inquiries

Although inquiries of a general nature or those related with the application of tax regulations demand a significant effort from the administrations, those involving individual taxpayer situations are the ones producing a greater operational loss to the tax offices. Among these are the debit balance reports, the current account situation, the application of payments, returns filed, application of excess payments, or favorable balances, inquiries and certifications of documents filed.

These requirements are fulfilled by the taxpayers to ensure that they have no pending issues with the administration or to proceed to comply with belated obligations and on many occasions, as well, to fulfill the tax administration's own requirements.

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The main cost factors deal with:

- The logistics that must be permanently displayed to handle taxpayer traffic, which involves officials, physical areas, furniture, office equipment, computer equipment, large amounts of stationery for printing reports, statements of account, summaries of individual situations, certifications.
- Handling of cases with errors, which implied registration of cases, the search for data, follow-up and correction of the information.
- Maintenance of staff with high levels of training, not only with respect to tax rules, but also knowledge of the various processes involving collection, receipt of returns, examination, recovery and the supporting information systems.

5. OPTIMIZATION OF PROCESSES WITH THE AID OF THE WEB TECHNOLOGY AND CONTROL OF THE COST FACTORS

The control of the cost factors is more than a purpose, it is a result achieved on rendering the tax administration processes more efficient and effective. To this end, it is required that all processes be aligned in keeping with the institutional strategies and designed under the integration concept.

The institutional strategy will be the one to determine the services to be provided and to controls to be applied, which, in turn, will determine the characteristics of the information systems, the processes and the information.

Information systems must support the tax management processes and establish horizontal work and information flows through the various key areas of the organization, involving all operational tasks as part of the flow of processes.

To optimize and adequately integrate processes, it is necessary to optimize the use of information. Good information³ is directly obtained when the generating source⁴ directly reports it on digital means, but it is better if during the information generation process, the relevant data are extracted and simultaneously stored for use at any time by level requiring it.

³ Relevant, pertinent and necessary Information.

⁴ Users such as taxpayers, public entities, taxation professionals, banks, tax administration offices, information agents, and external collaborators of the TA.

The information thus obtained may be used by different levels for different purposes, in which process new information is generated, which must be extracted and stored in the previously described manner. The repetition of this process of generation-extraction-storage-use-generation, causes an expansive dynamics that results in value added.

5.1. Key Factors for the Optimization of Processes and Reduction of Administrative and Compliance Costs

The optimization of processes and the reduction of administrative and compliance costs through the use of Internet, calls for a technological strategy involving the design and construction of information systems based on the following factors:

- Use should be made of a single system (or integrated series of systems), containing all the necessary functionalities for managing all the significant process of all users and information generating sources. In this system, the possibly large number of transactions is carried out in real time, according to the operational scheme adopted.
- The system should have available a broad series of services that are adapted to each user according to the latter's characteristics and requirements.
- The system should strictly use the information requested by the significant processes and store it without repetitions, in a single data repository, with access thereto by the levels, processes or functionalities requiring it.
- The stored information must be used as input for generating new information, but must preserve its integrity, which means that, once stored, it can only be modified if there is any error in its original processing.
- Every data, to the extent possible, should be digitalized into the system from the originating source, should have a practical usefulness for one or more processes, should be significant in keeping with its origin and nature and have a life cycle up to its storage.

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- All levels and generating sources (users) must perform their processes through the full or partial use of the tax administration's system and directly undertake therein the transactions or discharge detailed results on their operations.
- All generating sources must be directly or indirectly related through the data and their importance and the processes that will make maximum use of these relationships.
- The design of the processes must take into account the volume of transactions and the massive use of those related to the taxpayers.
- Structural aspects dealing with the documents and transactions of the system must be fully parametric.
- The functionalities of the system should be capable of being set in parameters, integrated, use the concept of document patterns and support itself on specific utilities for specialized functions or for taxpayer assistance.

5.2. Services through the Internet Portal

The Internet portal is the tax administration's visible face and it subjects the latter to permanent exposition before the community. The series of services that may be offered by this means is as broad as one may wish. It may be from basic tax information up to the performance of electronic transactions.

In general, the services offered depend on the internal capability of the information systems to support them. It is difficult to offer specialized services by Internet, when the administration does not have them internally available. On the other hand, those services that are available to the administration may be easily made available to the taxpayers.

However, an advantage of the new Web technologies is that various platforms and information systems may be integrated in such a way that the creation of a portal for Internet or Intranet is a very good opportunity for improving services, by integrating information, processes and computerized applications that would otherwise be dispersed.

In administrations with incipient levels of development and with less structured management processes, it is easy to promptly install services for capturing in all offices information on their management or activities, in case they are not integrated to the process network or to load information on nonintegrated activities. The interconnection of new systems with previous systems, allows the on-line consultation of former databases to extract information that is combined with others, originating from new information sources. All the information required by an official is within reach of a personal computer screen, through a local network or a wireless public network.⁵

Now then, when determining or deciding about the series of services to be offered the taxpayers one must consider:

- General, non - individualized services which any person may access and which deal with institutional information, deadlines for filing returns, static pages with tax regulations and some very basic interactive services such as electronic mail for handling inquiries, search for text of laws, regulations and frequent inquiries and,
- Individualized services to which only the taxpayer himself may have access, given that there is specific information on the individual treasury-taxpayer relationship.

The possibility of using one or another type of service, depends on the use of taxpayer electronic identification mechanisms and the validity of those identifications (such as magnetic signature) for tax purposes.

This implies that, as of the beginning of the rendering of services through Internet, there will be at least two large taxpayer segments. One will be formed by those not interested or unable to carry out individual electronic transactions and, another formed by those who will potentially carry out electronic transactions using Internet as means of communication.

The institutional effort must be oriented toward increasing the potential number of interested taxpayers and to promote in this segment the effective use of Internet for carrying out all types of electronic transactions with the tax administration, seeking to achieve a significant number of users that may render profitable the introduction of the Internet services, and which may gradually grow and consolidate itself.

⁵ See: Model of information systems for the tax administrations MSI-AT – CIAT. www.ciat.org.

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Thus, by considering all the previously described elements, the tax administration portal will integrate the various applications and existing information, in order that the Web Site may become a true, on-line administration, having available most of the services that the user could find in a conventional administration, among which we may mention:

- Personalized assistance in essential aspects, by establishing special services according to the type of user, and following the latter's adequate identification.
- Updating of data in the taxpayer file.
- Modification of the taxpayer's electronic identification.
- Receipt of tax return forms.
- Inquiry about specific information on documents, transactions and tax current account.
- Elaboration of payment vouchers and electronic payment procedures.
- Receipt and validation of returns filed by external collaborators.
- Receipt and validation of information reports on third-party transactions provided by information agents.
- Receipt and validation of bank collection reports.
- Access to special modules for banks, external collaborators and public entities.
- Confirmation of signature of returns by public accountants.
- Generation and confirmation of clearance certificates.
- Registration and control of invoicing systems and gradual provision of invoices.
- Presentation of requests for installment payments.
- Legal or administrative inquiries.
- Discharging of parametric information.
- Discharging and updating of taxpayer assistance programs.

- Inquiries about procedures in the Tax Administration.
- Tax statistics.

5.3. The Importance of the Taxpayer File and the Electronic Identification in the Web Strategy

The services related to the taxpayer file should be the first example of the advantages to be obtained through electronic transactions and should allow for performing on-line without the physical presence of the taxpayer, all the procedures that are carried out at the tax administration.

The registration system should include special characteristics or attributes of the taxpayers and, in general, of all users, that may contribute to subsequently automate the control processes and services, according to the role played by the user within the tax context and the information he provides to the administration. The latter may be of a general nature or related to particular obligations or taxes. On the other hand, on administering the taxpayer identification or location, the registration system should include the system for assigning electronic identifications or be closely linked to it.

The taxpayer and user registration system becomes a key aspect in the Web strategy, because it is the one administering the physical and electronic identification of the taxpayers and the information it includes is the basis for personalizing the services to be provided to each user.

In terms of electronic identification, the policy should be that every time a new taxpayer registered in the taxpayer file, or activates his registration, he must obtain or update his electronic identification⁶. In the same sense, those taxpayers registered before the implementation of the Internet services, must obtain their electronic identification as soon as possible.

Taxpayer registration⁷ may take place by directly filling a form on the administration's Web site or through an OFF-line⁸ application that allows for the preparation of the form and its subsequent on-line presentation.

⁶ The electronic identification is assimilated to the magnetic signature and consists of a public code that corresponds to the taxpayer's identification number and a private code known only to the taxpayer or his representative.

⁷ Or any other procedure related to the taxpayer file, such as the updating of data, the registration of branches or new business units or the request for magnetic identification.

⁸ In the CIAT tax management system, this application is known as Taxpayer Module for Interactive Forms or IF Module.

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The form will include validations in specific areas with predictable contents such as, for example, codes and descriptions of economic activity, types of taxpayers, types of corporations, tax obligations, taxes, return forms. Once the form is submitted through the Web site, internal verifications and confirmations are activated, for the purpose of guaranteeing the veracity of the data provided, as previous condition for authorizing the transaction.

Depending on the evolution of the information systems of the administration and other local entities, registration will conclude immediately upon presentation, or the form may be accepted for verification, with the final registration procedure being pending.

According to the technological possibilities, the administration will verify the essential information by means of a centralized scheme that combines automatic, on-line verifications against the databases of the administration or other institutions, verifications through inquiry by an official of other external databases, telephone calls for data confirmation and physical document verifications.

The purpose of verification is: (a) to ensure that the taxpayer identification and location are correct; (b) authenticate the petitioner's identity; and (c) determine the relationship between the petitioner and taxpayer to infer if the latter is authorized or not to perform the procedure. If one cannot verify the petitioner's identity or one cannot verify the data report, or if the information is nonexistent, has errors, is wrong or incomplete, the registration or assignment of electronic identification are not made.

In some countries, the verification is completed with specific documentation that the taxpayer may send by Fax or physically submit at the tax administration.

The electronic identification for previously registered taxpayers may be assigned through a similar process, by integrating the electronic identification procedure and the registration procedure in the same transaction. In any of these cases, the taxpayer registers the private code of his choice, directly on-line in the system and under security conditions. The latter remains inactive until the complete procedure has been concluded and duly approved, after which the information system automatically activates it and the taxpayer is allowed to undertake electronic transactions.

As alternative procedure, the taxpayer registration system may use, for electronic identification of users, digital certificates issued by a third-party recognized at the local level, with the authority to issue them. However, certification schemes are not fully functioning in all countries and the individual cost for the taxpayer may render difficult the implementation of this solution. Additionally, in several cases, the process for obtaining certification involves a procedure similar to that for obtaining the electronic identification issued by the administration.

Regardless of the electronic identification scheme used, following the assignment of the electronic identification the user has access to a broad range of personalized services through Internet, which includes options for changing his electronic identification, filing returns, making payments, consulting balances, obtaining clearance certificates, consulting documents filed and presentation of external information.

The implementation of a taxpayer registration process with these or similar characteristics:

- Dramatically reduces the staff required for capturing registration forms, modification of data, registration of branches, registration of obligations.
- Accordingly, it reduces waiting time at the tax offices windows and the number of documents used for verifying the information provided.
- It also allows a significant reduction in the number of physical forms used and most of the costs involved in processes associated to their generation and distribution.
- It likewise guarantees that data digitalization be performed at the source which generates the information, thus affording the data superior quality.

To mention a successful case which uses a scheme similar to the previously described one, in the Tax Administration of Panama, 47.4% of new taxpayers registered through Internet in 2002, and this figure increased to 56.7% in 2003.

5.4. The Case of Returns Filing and Payment through Internet

One of the important milestones in the institutional life of many tax administrations has been the introduction of the process of receiving

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returns on magnetic media, either on physical diskettes submitted at the administration or through Internet. In several instances, the receipt of payments has accompanied the process.

Several schemes have been adopted for establishing these filing mechanisms. Some administrations have made it mandatory for all taxpayers to file on magnetic means, others, only for large taxpayers. Other administrations have established it as a voluntary one.

In all cases, the decision made has been based on the situation of information systems available, the existing collection process through the banks and the systems normally used for this type of transactions.

However, in general, efforts have been aimed at solving the problem of massive information input, quality of the digitalized data and timeliness of information availability for control purposes.

The operational model of the process adopted in the countries, has also used as determining factors the level of Internet penetration in the local market, the level of the population's computer culture and the availability of professional service sectors to act in the intermediation process as external collaborators of the Administration.

The two best known models are filing through the Web site of the tax administration and filing through the banks, without their necessarily being excluding

In the tax administration model the taxpayers access the administration's system through their electronic identification, while the personalized services allow them to directly carry out the transaction on line and in real time, after which the system validates and assesses the respective form, loads the information in the data base and executes the processes affecting other applications such as the current account, non-filers, control systems and the examination systems. The taxpayer may immediately see his transaction reflected as tax return form already filed and its effects on the current account balances.

In this same model, the taxpayer may file his return through an OFF line⁹ that allows him to prepare the form, generate a magnetic file and subsequently connect himself to the Web site and file it according to the same process previously described, or submit the magnetic file at an

⁹ In the CIAT tax management system, this application is known as Taxpayer Module for Interactive Forms or IF Module.

office of the administration with a signed copy of the form or an excerpt thereof.

A variation of this model is that in administration with large volumes of transactions, filing is done through Internet, but validations and data loading and assignment to other systems is usually postponed until the evening when the load of the processors is reduced.

Another very interesting variation is the provision of the pre-elaborated return to the taxpayer, based on internal as well as external information available to the administration. Under this scheme, the taxpayer consults the return proposed by the administration and confirms his acceptance, or files another one, in case he does not agree with the contents of the proposed return.

In the model for filing through the banks, the taxpayer elaborates a return using an OFF line application that allows him to generate a magnetic file to be submitted at any bank, along with a signed copy of the form or an excerpt thereof. Usually the bank is not on-line with the administration, for which reason the transfer of information, validations and loading of the databases will take place several days later.

A variation of this model is the filing of returns via Internet directly at the bank facilities, with subsequent transmission of the information.

In the case of payments through Internet, there are also several models.

In one of them, there is a separation between filing of the return and payment. It is done by accessing the administration's information system to determine the amount and obligation to be paid, after which, the user selects a bank to which he will connect himself by means of a simple hyperlink and makes the payment at the respective home banking, using the mechanism for debiting the account.

In another model, filing of the return and payment are combined, for which reason, the return is only considered as filed when the bank confirms the information as to the debit made in the account. In some cases, the transaction is fully made at the bank's Web site and in others of greater complexity, the return is first filed in the administration's system and payment is subsequently made at the bank's Web site, all in a single transaction.

An aspect to be noted is that the transfer of complete information, of payments received is not necessarily done on line, or the same day in

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which the transaction occurs. Likewise, funds are transferred 24, 48, or 72 hours later, and in some cases several days later. Nevertheless, the administration must control the collection entities to ensure the precise and timely transfer of funds to the government's treasury.

In accordance with what has been stated in item 5.1, a Web strategy must consider some specific aspects of the process for returns filing and payment via Internet that are mentioned hereunder:

- The receipt of tax returns is made through a single function for presentation on paper, diskette and Internet.
- The system has a collection of types of valid transactions per type of user (taxpayers, officials, external collaborators, banks, public entities). All users must perform their transactions directly on the system, which is capable of providing a differentiated treatment according to the type of transaction performed by the user.
- The rules for the receipt of returns are the same regardless of the means used and the type of user presenting them.
- The system has an OFF line function for the elaboration of the forms, which is the same one used in the case of the taxpayer file. This application has the capability of interpreting the parameters containing the definition of each form, its validations and physical characteristics. It is also capable of generating magnetic files that include the elaborated forms and allows for physically printing them on regular sheets.
- Individual users or those carrying out transactions for other users, such as accountants, external collaborators authorized to receive returns, etc., may make use of the application.
- Transactions via Internet are performed on behalf of the respective user and by type of transaction or transactions that may be carried out. When a user accesses the system via Internet, the latter provides it specific services he may use in accordance with his special characteristics:
 - A user with the category of taxpayer will file returns in his own name, but a user with the category of external collaborator authorized to receive returns, will file them on behalf of third parties and the system will keep control of all those he may have filed. In this same sense, a user with the category of

certified public accountant may consult those returns in which his registration or enrollment number may have been used, for purpose of confirming or rejecting his signature appearing on them.

- A user with the category of responsible bank operator, will enter Internet to download before the TA, the detailed report of payments received daily in his bank and to use special services for consulting the current account of the bank as collecting entity. If the payment scheme used for bank collection involves on-line connection for real-time recording of each payment, a user with the cashier category will use the system to register the payments on line and when concluding the shift, for closing the cashier's desk.
- The system controls collection from each bank and generates the documents for the transfer of funds from the treasury to the government. Simultaneously, it makes allocations to each bank's current account on registering as debit the sum of amounts collected each day. The government's treasury will have access to a special module of the system where it may consult the amounts collected by the bank, per day, as well as to confirm on line the amounts that may be actually transferred to its accounts. Through these operations, the system automatically records the corresponding credits in each bank's account to compensate the debits from collection.
- Officials will have access to the system to carry out multiple on-line transactions, from individual taxpayer inquiries, up to the receipt of the returns on paper or diskette.
- The parametric characteristics of the system allows an official without computer expertise to define by means of a special function, all the forms for tax assessment and the models by introducing the necessary mathematical forms and validations. In the same sense, this can be done with respect to the deadlines, rates of interest applicable and their enforcement, fees and contributions applicable, order for the allocation of payments, types of transactions allowed in the current account, debit/credit nature of the transactions, linking of forms to taxes, among others.
- These parameters automatically set up all the systems and are automatically placed in Internet to be downloaded and update the OFF line function.

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- In this way, in only a matter of hours after its issuance, a new form may be qualified to be received on paper, diskette or via Internet.

In a scheme with the previously described characteristics, the processes are fully integrated and are totally or partially executed within the system, which results in significant benefits:

- The design and physical production of the forms is simplified, it being even possible to eliminate the pre-printed forms.
- The distribution to the taxpayers is completed in minutes, once the parameters of the new form have been completed. Simple access to Internet allows any user to obtain the updated forms.
- The preparation of forms by the taxpayers is very simple and the Online and OFF line options automatically calculate all the formulas and result boxes.
- The filing and receipt of forms is also simplified and a combined Internet- Administration-External Collaborators scheme allows for full coverage.
- The problem with data transcription from the forms is reduced and practically eliminated.
- The quality of the information increases significantly.
- The information enters immediately the databases, thus being available with great timeliness. Reprocessing as a result of information errors is reduced.
- The tax administration has the information immediately available to generate the processes of analysis, current account, recovery and examination, as appropriate.
- There is a drastic reduction of staff devoted to assisting the public and accordingly, of offices for providing assistance and receiving documents, equipment, supplies, computers.
- The administration of physical documents is simplified.

Finally, to mention a successful example of the use of the previous scheme, suffice it to say that in the Tax Administration of Panama, 44% of tax returns were received through electronic means in the year 2003 and 52% in 2004, with the scheme being completely voluntary.

6. CONCLUSIONS AND RECOMMENDATIONS

The technical committee for the evaluation of portals of the tax administrations of the CIAT member countries expressed in its 2002 report some referential criteria for the evaluation of the portals and determined four stages of evolution in the rendering of services through Internet that represent gradual increases in the series of services rendered:

- Stage 1 has available a basic Web site through which certain institutional information is provided, deadlines for filing and static pages with tax regulations.
- In Stage 2 some interactive services are incorporated, such as electronic mail for answering inquiries, search of texts in laws, regulations and frequent inquiries.
- In Stage 3 there are security mechanisms for the identification and authentication of taxpayers, while there are also services available such as Receipt of returns and updating of private data I the registries.
- In Stage 4, there is the addition of on-line communication with other entities and such services as electronic payments, sending/acceptance of formal communications and follow-up of procedures.

The experience of the past two years ratifies the formulations of the committee; nevertheless, it also showed that the various stages of services through Internet depend on the level of development of the internal information systems of the tax administration.

On the other hand, although Internet benefits are obtained at all stages, the great advantages of the use of this technology become evident when introducing services for carrying out individual and massive transactions that require the electronic identification of the users.

Even so, the simplest information that the taxpayer may freely access already represents an improvement in the service, on the condition of its veracity, accuracy and timeliness.

The quality of services offered by Internet, are in direct relation to the quality and strength of the information systems that handle the business processes of the administration. To the extent the systems of the administration are better structured, it is easier to offer services through Internet.

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One cannot offer services through Internet that the internal systems are not capable of offering. In this way, if there is no tax current account system available, one can hardly offer a service for consulting balances through Internet

An advantage of the new Web technologies which deserves special mention is the possibility of integrating several platforms and information systems, in such a way that the creation of a portal for Internet or for Intranet is a very good opportunity for improving the services, integrating information, computerized processes and applications that otherwise would be dispersed. This opens a window of opportunities for the Tax Administrations for establishing new services based on Internet, without the need to totally replace their previous systems.

Finally, it must be necessarily mentioned that the institutional strategy is determinant, because it is materialized through the execution of the processes and they are the ones that may benefit from the use of Internet, inasmuch as the latter allows for their horizontal integration and directly involving therein all the intervening levels. For this reason, the main challenge to be faced for introducing services through Internet is not technological, but rather conceptual:

“The control of cost factors, more than a purpose is the result achieved by rendering the tax administration processes more efficient and effective. To this end, it is required that all processes be aligned in accordance with the institutional strategies and designed under the integration concept.”

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**CONTROL AS KEY MANAGEMENT FUNCTION
IN THE TAX ADMINISTRATION**

Lecture

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CONTROL AS KEY MANAGEMENT FUNCTION IN THE TAX ADMINISTRATION

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A) GENERAL CONSIDERATIONS ON MANAGERIAL CONTROL

The tax administration, as organization in charge of applying the tax and customs system in a general and effective manner to all citizens, plays an important role in achieving a significant part of the resources provided in the General State Budgets.

The importance of this mission calls for undertaking planning functions that may determine the strategies of the organization, the objectives to be achieved and the necessary actions for achieving the results

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expected. Likewise, it is necessary to control the action undertaken, to determine the extent to which the results correspond to the previously established objectives, indicating, as appropriate, the deviations occurring and the causes therefore, to then establish the corrective measures, as well as providing information that may serve as basis for the future planning function, within the short and long term.

I. Concept and Objectives

Concentrating on this second aspect and as first approximation, **management control** may be defined as that process that allows for determining to what extent the previously established objectives are being achieved. Management control should:

- Provide a global overview of all managerial functions that comprise the value chain of the Tax Administration.
- Integrate the strategic variables (long term) with the annual operational variables.
- Provide information for correct decision-making (present and future).
- Contribute to define a coherent set of indicators to control the activity of the Tax Administration and guarantee the reliability of the information.
- Establish an automated information system that may allow for correcting deviations, when appropriate.
- Report and suggest actions tending toward the continuous improvement of results.

It is, therefore, a function closely linked to planning and, like the latter, calls for having available much and varied information on the organization.

In this context, the **management control system** is an Information-Control system superimposed and continuously linked to management whose purpose is to determine compatible objectives, establish adequate measures for their follow-up and propose the specific actions to correct deviations.

The establishment of a management control system mainly based on the existence of indicators or measurements of the Tax Administration activity may be faced with such obstacles as:

- The belief that some types of works or activities cannot be measured.
- The belief that a measurement precedes a penalty.
- Its difficulty and complexity.
- The high cost of some measurements.

However, it must be stated that the design and establishment of management control and information systems constitute a key element in the success and modernization of the Tax Administration, on allowing:

- The measurement of the implementation and achievement of the strategic plan by means of the annual plans.
- The measurement of the results achieved in relation to the previously determined objectives.
- In case of deviations, obtaining information on the causes preventing the achievement of the expected results for adopting timely corrective measures.
- Control of the adaptation of actions and procedures for achieving the expected results.
- The evaluation of the productivity of the resources and the efficiency of the Tax Administration.
- The information for determining the new objectives.
- Communication with governmental authorities in relation to efforts undertaken by the Tax Administration for achieving the budgets.

II. Characteristics

From a theoretical standpoint, a management control system must include, among others, the following characteristics:

- Active, in the sense of influencing management for designing the future and continuously creating the conditions for making it a reality.
- Allow for channeling the efforts of the Tax Administration to achieve the objectives according to hierarchies.
- Bear in mind the existing relationship between the resources allocated and the resulting products and services.
- Be coherent with the existing organizational structure (centralized/ decentralized, by functions or by type of taxpayers, etc.).
- Determine concrete measures for the results expected to be achieved by activity and responsible center. In this sense, it is

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worth recalling the following reflections by Peter Drucker:

“... few factors are as important as measurement for the perfect operation of the organization”; “... measurement is currently the weakest plot within the field of management”; or that more recently stated by the former U.S. Vice-President Al Gore “... one can only improve that which can be measured”.

- Flexible: should be capable of being modified according to organizational changes, management styles and evolution of the environment.

Now then, the following aspects should be taken into account when establishing indicators:

- The members of the organization must be clearly aware that a previous requisite for improvement is an adequate measurement of its performance.
- The management staff responsible for the unit is better aware of its operation and therefore, it is the one that can better determine the indicator.
- One should bear in mind how easy it is to incur in what has been called *“inflation of indicators”*. Therefore, one should exclusively measure what is significant and may bring benefits to the organization.
- One must assess the level of usefulness of each indicator. If it is not useful for the organization, it should be eliminated, since every measurement involves a cost and too much information takes away from information.
- One of the main objectives of measurement is feedback, and for this purpose, one measures the work carried out and not the employee.

III. Control and Planning

Given the close relationship existing and overlapping between the planning and control functions, the design and establishment of a management control system in the Tax Administration must take into account the following stages:

- Strategic planning: definition of the mission, values, strategic objectives of the Tax Administration and the strategies for

- achieving them, in relation to the analysis of the latter's own situation and the environment in which the organization works.
- Operational planning: definition of operational (annual) objectives and of the actions necessary for achieving them (definition of plans and programs) that should contribute to achieve the strategic objectives (establishment of hierarchies). This phase involves the establishment of the organizational structure, with concrete forms of execution and control of the necessary tasks for achieving the objectives, with the assignment of functions and responsibilities.
 - Measurement, registration and control of actual results achieved.
 - Calculation of deviations through comparison between values anticipated for the objectives and results actually achieved.
 - Analysis of the sources and causes of deviations, for their correct explanation and interpretation; assignment, as appropriate, of responsibilities.
 - Making of decisions to correct the situation; subsequent follow-up of their implementation and valuation.

IV. Relationship with other Forms of Control

It is convenient at this time to set the limits between managerial control and other control instruments that are applied within the organizations and specifically, public organizations. Thus one may distinguish: internal auditing, control of budgetary execution and external control (from Parliament and other bodies):

- Internal auditing, among other functions, ensures that the actions of the administration abide by the established standards and procedures. Contrary to managerial control, internal auditing is in fact interested in the specific case or file, as sample for detecting possible irregularities or deviations. The existence of an internal auditing system is key to ensuring that the information of the managerial control systems responds to the authentic execution of the organization.
- The control of budgetary execution, through interventions ex ante or ex post, ensures compliance with the standards and procedures dealing with expenses and compliance with the budgetary restrictions.

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- External control is that exercised by the institutions to which the administration should respond. It is aimed at compliance with the latest objectives of the administration and the commitments it may have acquired within that sphere, but it is exercised from outside the organization and has a less technical component than managerial control.

There may be other forms of control adapted to the characteristics of each Administration. What is important to be highlighted is that the results of all these modalities of control are of high value for managerial control. As has been said, managerial control must be flexible and adapted to the new problems or variations of the environment; the results and findings of the other systems provide new perspectives and detect the weak points that must be taken into consideration for redefining and adapting the managerial control system.

B) MANAGERIAL CONTROL AT THE S.A.T.A.

I. Planning and Control Instruments at the S.A.T.A.

It must be precisely pointed out that an organization that aspires to be modern, effective, efficient, and in sum has a vocation for leadership, as is the case of SATA, must necessarily count on a planned activity. For this reason the SATA devotes a special effort to the planning activity which is essentially manifested in 4 aspects:

- In its **organizational structure**, by having available an entity, the Organization, Planning and Institutional Relations Department, especially devoted to promote and coordinate the planning tasks. In addition, in each of the areas carrying out the different functions entrusted to the Agency, there are bodies or units, with the category of Deputy Directorate, in charge of the planning tasks in their sphere of competence. At the territorial level, there are also bodies specialized in the planning and coordination tasks.
- In the existence of various **instruments** that specifically show the results of the planning activity and which support the activities of the organization. These instruments, which are different in their configuration and purpose, are nevertheless, closely interrelated in such a way that the figures reflected in each of them condition the others.

- In the development of **computerized tools** that render possible the measurement of the results achieved in the execution of the plan and continuous follow-up of the deviations that occur with respect to the forecast made.
- In the **linking** of the results achieved with the staff **compensation system**.

The planning activity of the Tax Agency may be grouped in a triple order:

In the **first place**, there is the **Planning of activities**, that is carried out with the separation of the two spheres of action previously mentioned: information and taxpayer assistance on the one hand, and the struggle against fraud, on the other, which latter actions are aimed at preventing possible tax noncompliances, as well as correction of those that have already occurred.

Planning of the two areas of activity of the Tax Agency is carried out through the following instruments:

In the first place and with an annual horizon, there is the **Annual Objectives Plan**, which is the expression in figures of the results the State Agency of Tax Administration endeavors to achieve each year, classified by blocks or areas of activity. This Plan includes objectives in the struggle against fraud, as well as in assistance for voluntary compliance with tax obligations by the citizens.

Since the Annual Objectives Plan cannot reflect each and every one of the variables of quality to which the Spanish Tax Agency must respond, the **Special Quality Program** is established as a complement thereto and the latter covers the series of quality actions that are to be promoted in the organization.

In the sphere of tax control, the planning of actions is completed with the **General Tax Control Plan**.

The planning instruments of the control activities that have been described do not constitute tight or independent compartments among themselves, but rather are closely interrelated. The information obtained from them may serve as basis to modify or correct the strategies in the struggle against fraud and even to give them a new orientation. The follow-up of the indicators of the control activity of the *Annual Objectives Plan* may generate information that may recommend the modification of the *General*

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Tax Control Plan, but also of the strategic guidelines of tax control, which in turn, may affect the successive *General Control Plans, the annual Objectives Plan and the Special Quality Program*.

The **second** order of planning consists of the **Planning of resources** or the necessary means for carrying out the mission entrusted to the State Agency of Tax Administration. Such planning is carried out jointly, considering the total functions carried out by the Tax Agency, since merely through a global analysis it is possible to detect the needs or excesses shown by the different spheres of action, to thus reallocate resources among the areas.

The planning of resources between the different areas and functions that have been entrusted to the State Agency of Tax Administration is carried out through the so-called **Tax Agency's Human Resources Evaluation Plan**, which is a five-year plan.

Lastly, there is **Planning for the improvement of processes** to which the resources are applied and through which the State Agency of Tax Administration carries out the functions entrusted to it.

Within the planning of processes, one may frame as a basic planning tool, the establishment of Working Groups wherein, with the participation of experts from the organization itself, an analysis is made of the operation of the areas or of specific aspects of the Agency's tax operation and improvement and corrective actions are proposed, which on numerous occasions are reflected in the planning instruments.

The simultaneous and coordinated use of the planning of activities, of resources and of processes allows for evaluating the **effectiveness, efficiency and quality** of the action of the State Agency of Tax Administration, by determining:

- The level of achievement of the objectives established through the measurement of the results achieved (*effectiveness*);
- The optimization or relationship between the results achieved and the resources used for achieving them (*efficiency*); and
- The satisfaction of the citizens who are the beneficiaries of the services rendered by the Tax Administration (*quality*), in a permanent process of continuous improvement (*total quality*).

II. The Organization of Control at the S.A.T.A.

As far as the implementation of the management control system of the Tax Administration is concerned, from a theoretical viewpoint, there are two alternatives:

- The creation of a specific unit in charge of the design and establishment of the management control system, directly dependent on the highest decision-making level of the organization;
- or else, the exercise of these functions by each one of the functional areas into which the Tax Administration is structured.

The first alternative shows as advantage the fact of allowing the management control system a global vision of the organization, by integrating its different objectives and strategies and aiming the efforts toward the mission entrusted to them, that is, it allows for designing a management control system that considers the series of activities carried out by the organization, by determining the relationships and dependencies existing between them, as well as the contribution of each area toward achieving the strategic objectives of the organization. Vis-à-vis this alternative, the second one guarantees greater preciseness in the definition of objectives and tasks of each functional area.

Nevertheless, both alternatives may be complemented among themselves, by assigning to a specific unit the design, in collaboration with other functional areas, of the strategic planning instruments, as well as coordination in the elaboration of the operational planning instruments, whose definition and establishment must fundamentally correspond to the functional areas, within the framework previously established by the strategic planning instruments.

As for its location, given that most of the Tax Administrations are organized in a functional manner, that is, by functional and vertical Departments or General Directorates (Intensive control or Inspection-Auditing, Extensive control or Management-Examination, Collection, Customs and Special Taxes) vis-à-vis support or horizontal Directorates or Departments (Computerization, Human Resources, etc.), it appears that it would be most adequate to place it at a superior level, that is the General Directorate's staff.

Concentrating on the example of the Spanish Tax Agency, consideration of planning as basic function prior to carrying out the functions entrusted, gave way to the creation in 1997, of a specific department in charge of the

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planning tasks, called Organization, Planning and Institutional Relations Department, among whose functions, the ones worth highlighting are the following:

- The study and proposal of the general strategic guidelines that will serve as basis for the Tax Agency's policy, the development actions of such policies and the evaluation of the results achieved in complying with the general objectives of the organization.
- Coordination in the elaboration of the pluri-annual action programs and annual objectives plan, by proposing precise adaptations vis-à-vis deviations in their compliance.

In addition, this Department has two other types of functions closely related to those of planning and control: organization and communication.

- In the area of organization, it is in charge of all tasks involving the territorial distribution of the different offices and staff assigned to them, with the subsequent adoption of reorganizational measures that may involve reallocation of staff, location of newly admitted staff and re-dimensioning the offices through timely analyses of workloads.
- In the area of communication, it is in charge of the communication policy, internal (within the organization) as well as external (communications media).

In exercising its functions, the Department supervises the elaboration of the annual planning instruments, starting with the proposals originating from each one of the functional areas.

This ensures the integration and coherence of the action plans proposed by the various functional areas. It is also guaranteed that the series of management indicators defined may send a clear signal to the entire organization, thus avoiding contradictions or discrepancies that would be derived from an independent definition of objectives by each one of the areas.

Follow-up of compliance with the objectives plan and management indicators defined is carried out through the corporate information system, which offers the necessary tools for examining at the desired territorial level, the degree of compliance and its deviation from the initially determined level.

It is important to point out that the managerial control must pervade the entire organization. It is not only a question of having the top leader receive all the necessary information to follow-up the Administration's execution. Managerial control also affects the different hierarchical levels. Thus, at the same time objective indicators are determined for the entire organization, these are separated and indicators are established for each of the different territorial levels. Those responsible for them, also count on the tools that are provided by the information system for a continuous follow-up. In that way, the regional as well as the provincial delegates may detect on time the deviation occurring in the indicators and undertake the corrective actions, without having to wait for such detection to occur at the central level.

As has been previously said, managerial control is complemented with other control modalities. In the Spanish Tax Agency the following institutions implement these modalities:

- The Internal Auditing Service, which is the basic instrument of internal control directly dependent on the Director. Among its responsibilities are the control and follow-up of the annual objectives plan of the Agency and of the programs, indicators and instructions, by formulating the necessary proposals for their adaptation and compliance.
- The State's General Intervention as financial economic control outside the very Agency for the execution of its own budget and
- The Accounts Tribunal, which exercises external control for the supervision by Parliament of compliance with the objectives that have been entrusted to the Agency.

There are other institutions that fulfill important control functions on the Agency's own activity. Worth noting is the Taxpayer Defense Council which, although it has as specific objective the defense of individual taxpayers vis-à-vis the consequences of an incorrect operation of the Tax Administration, is a key point for the detection of problems in the functioning of those areas that make decisions that affect the citizens. Its annual report, which describes in detail operational problems that affect the taxpayers is of an extraordinary value to undertake corrective actions, redefine priorities, as appropriate and propose normative changes.

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As regards the ways of learning about the opinions and assessments of the users with respect to the services made available to the citizens, periodical surveys are undertaken for directly obtaining the opinions of the citizens about the services rendered by the Administration.

Nothing has been said about the cost of managerial control. As every administrative activity, control has a cost that must be compared to the advantages obtained from it. The Tax Agency's option for powerful corporate information technology and the automation of procedures has allowed an extraordinary reduction in the cost of obtaining and managing the necessary information for managerial control, which may arise almost immediately as a another sub-product of the administrative processes, without the need to incur in additional costs.

We may affirm that managerial control is a reality soundly established at the S.A.T.A. However, this does not mean that we are satisfied with the current reality.

III. Review of the Planning and Control System at the S.A.T.A.

The Agency's planning and control process is undergoing review. Certainly, it shows a series of strong points that must necessarily be preserved, which are:

- 1) Correspondence between the objectives **and specific aspects of the Tax Agency's mission**, it being worthwhile to highlight the results achieved in the area of taxpayer assistance and massive control, favored by the effective performance of the Tax Agency's human resources as well as by the support of the new technologies.
- 2) **Firmly rooted culture of objectives** in all its areas, operational as well as support.
- 3) **Stability** of the most relevant indicators, which allows for undertaking inter-annual comparisons.
- 4) Permanent system of **control and follow-up** of results, originating from a sound and powerful **computerized system**, which allows for making the measurements and that they be consistent and available.
- 5) Existence of instruments at the service of detection of operational risks.
- 6) Identification of responsibilities according to a functional classification of key results in tax control.

Nevertheless, there are also specific weak points that are currently being analyzed with a view to their review and improvement.

- The linking of planning instruments is complex and renders difficult the global understanding of the system.
- The diffusion of planning is excessively limited and there is no prioritization of the objectives that must be achieved and the tasks that must be performed.
- The structure of the system of indicators is not the most adequate one. There is a duplication of indicators of certain areas, while there is a lack of indicators to reflect the coordination action. On the other hand, there is no clear differentiation between indicators of objectives referring to territorial spheres and those referring to the Central Departments.
- The follow-up and control instruments show some deficiencies. Thus, there are some difficulties in their adaptation for the follow-up at the territorial level, while there is also a lack of homogeneity criteria in their application.
- On the other hand, in the areas in charge of tax control, there is an excessive dependency of indicators based on the immediate result of the control areas.

The improvement plans being developed endeavor to solve these problems and influence the following:

- Simplification of planning instruments.
- Clarification of the spheres of action of the central and territorial services of the Agency.
- Elaboration of an integral chart of indicators that may allow for a systematic and coherent development at the different levels of the organization, considering the specific territorial and functional aspects.
- Establishment of a system of priorities and weighting of indicators.
- Review of the role of the indicators, based on the result of the control actions and promoting the use of joint coordination and action indicators.
- Ensure a greater level of participation and intervention of the members of the organization in the process of determination of the objectives.
- Promote research and coordination among areas.
- Reflect the Tax Agency's commitment to quality.
- Establish a clear relationship between the objectives and the economic incentive linked to their achievement.

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The integral chart of indicators elaborated in keeping with the criteria stated, should become the only follow-up and control tool, reflecting the due separation between results and tasks.

In sum, we understand that managerial control is an essential tool for achieving the levels of excellence and effectiveness that is demanded from our Administrations and its integration, as part of the activity of the managers is a reality that calls for a continuous effort of adaptation and improvement.

Case study:

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THE CONTROL OF THE IMPLEMENTATION OF STRATEGIC PLANS

Deborah M. Nolan

Commissioner

Large and Mid-Size Business Division

Internal Revenue Service – IRS

(United States of America)

CONTENTS: Background.- History.- Strategic Planning in Internal Revenue Service – A Brief Overview.- Business Performance – Execute, Review, Improve.- The key role of performance measures.- A tool-box of measures.- The business performance review system.- Continuous process improvement.- Large and mid-size business-specific processes – An example of an IRS Operating Division’s implementation and tracking the Strategic Plan.- Key performance indicators.- The role of leadership.- Looking Forward.- The integrated financial system.- Conclusion.

BACKGROUND

In 2000 the Internal Revenue Service underwent a major reorganization. At this time IRS adopted a strategic planning process that encompasses all aspects of planning, budgeting, performance and evaluation.

The IRS Strategic Planning Process is designed to support the Internal Revenue Service executives in making decisions about what goals and strategies should drive the agency in meeting its overall goals of ensuring that taxpayers understand and meet their tax obligations in a timely and accurate manner, allocating resources to achieve those goals, and evaluating the results. This paper will provide a brief overview of the

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strategic planning process and a detailed description of the role business performance review plays in monitoring developments within tax administrations. Careful attention to the tools used to monitor and assess progress, measures and targets, is essential so that goals achieved can be celebrated and interventions chosen can be adjusted as necessary.

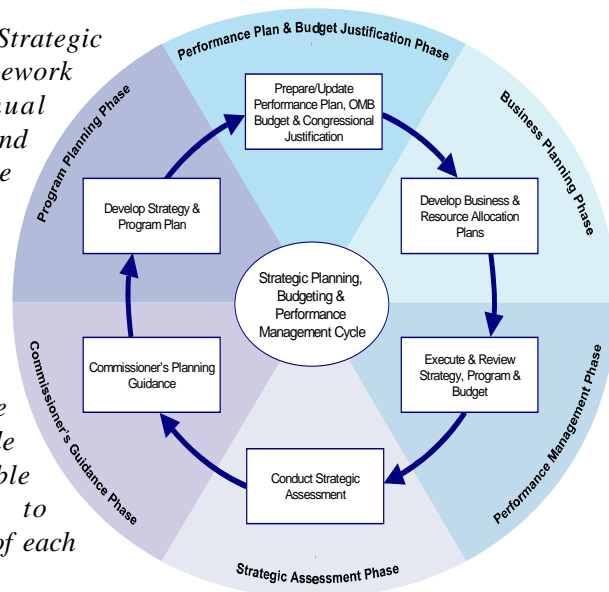
HISTORY

In 1993 the United States Congress passed the Government Performance Results Act. The law applies to all U.S. agencies, including the Internal Revenue Service. The purpose of the Government Performance Results Act of 1993 (GPRA) is to:

- Improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, service delivery, and satisfaction.
- Improve Congressional decision-making by providing more objective information on the relative effectiveness and efficiency of Federal programs and spending.
- Improve internal management of the Federal Government.

GPRA requires that federal agencies produce the following three documents:

Strategic Plan - *The Strategic Plan provides a framework for both the Annual Performance Plan and Annual Performance Report. It must include general agency goals and objectives with outcome-related measures and how these relate to specific program performance goals. It must provide objective, quantifiable criteria by which to measure the success of each program activity.*



Performance Plan - The Annual Performance Plan (APP) provides performance goals and indicators for the fiscal year; a description of the resources needed to meet the goals for the fiscal year including processes, skills, technology, personnel, and capital; and an explanation of how the results will be verified and validated. The APP is linked to the budget providing program justification for allocating resources as shown in the budget. The APP is one of three deliverables required during the Annual Performance Plan and Budget Justification Phase.

Performance Report - The Annual Performance Report (APR) reviews and evaluates the success of achieving the performance goals from the previous fiscal year. These reports establish a system for measuring each agency's performance that is tied to the congressional appropriations process. The content for the APR is developed by the operating divisions during the Performance Management Phase.

STRATEGIC PLANNING IN INTERNAL REVENUE SERVICE – A BRIEF OVERVIEW

The six phases of the Strategic Planning Process are:

1. **Strategic Assessment** – A broad assessment of the customer segment to determine emerging trends, issues and problems that impact tax administration. During this phase, proposed solutions to these trends, issues and problems are generated, and a determination of resource availability is made.
2. **Commissioner's Planning Guidance** – The IRS Commissioner outlines strategic priorities, resource availability and target allocations IRS-wide.
3. **Program Planning Phase** – Operating divisions prepare Strategy and Program Plans (SPPs) that address the questions: what will be done to achieve identified strategies; what resources are needed; what are the performance expectations.
4. **Congressional Justification** - The Performance Plan and Budget Justification phase includes preparing and submitting the IRS Annual Performance Plan (APP), Treasury and OMB Budget Submissions, and Congressional Justification (CJ).
5. **Business Planning Phase** - During this phase, the strategic initiatives developed in the Strategy and Program Plans are translated and developed into business plans, taking the strategic to the tactical. At this stage, measures and targets are finalized and linked to specific action plans and managers' commitments.

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6. **Performance Management Phase** — The Business Performance Review is the central process for measuring, reporting and reviewing performance against plans. This phase is discussed at greater detail later in this paper.

BUSINESS PERFORMANCE – EXECUTE, REVIEW, IMPROVE

The sixth phase of the cycle—Organizational Performance Management — is quite different from the preceding phases in that it is performed as a continuous, iterative process throughout the year. As such, it is a common integrating theme throughout all phases of the cycle.

Organizational performance management hinges on using measures developed within the balanced measurement framework to gain insights into an agency's performance against plan.

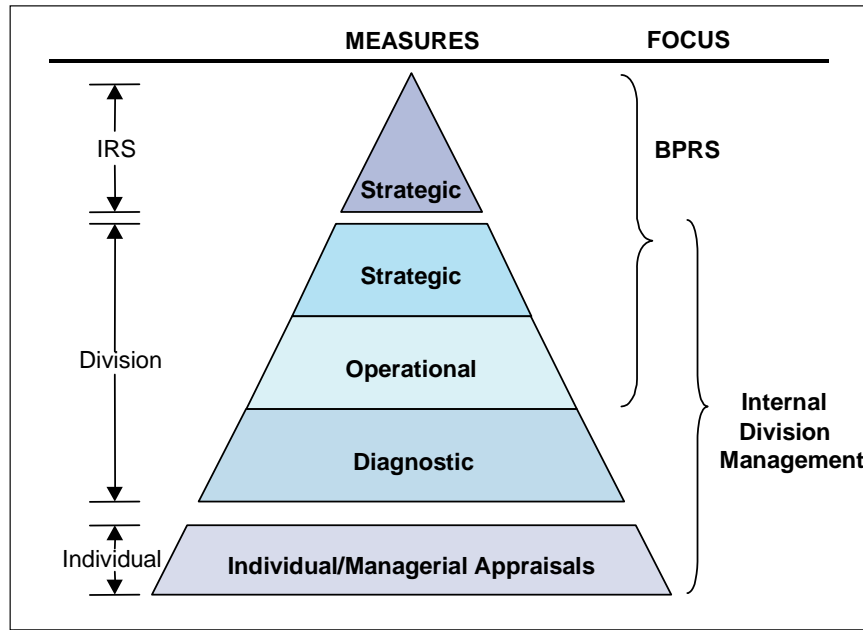
The performance management phase emphasizes achieving specific results against plans and linking these results to achievement of the overall mission and strategic goals of the IRS. This system ensures that three components of balanced measures—customer satisfaction, employee satisfaction, and business results—are carefully considered when setting organizational objectives, establishing goals, and assessing progress and results.

The Key Role of Performance Measures

Performance measures are the common language terms that link all phases of the planning cycle—from planning and execution, to reviewing and revision. Measures are key indicators of performance for the review process. The agency uses balanced measures at both the strategic level and the operational level to gauge an organization's performance.

The balanced measures framework below depicts how the review process links with operational and diagnostic performance measures. Measures (and supporting diagnostic tools) are employed in the Business Performance Review System to focus management attention on achievement of strategic and operational goals, and to show linkages between performance and achievement of IRS-level strategic goals.

IRS Balanced Measures Framework



A Tool-Box of Measures:

Strategic measures are used to assess overall performance in delivering on the IRS-wide mission and the strategic goals of improving taxpayer service, enhancing enforcement of the tax law, and modernizing the IRS through its people, processes and technology. Operational measures are used to assess the effectiveness of program and service delivery of particular components of the IRS. Diagnostic tools are used to explain or discover the factors impacting changes in balanced measures. Workload indicators are used to project an expected level of activity for an organizational unit or program and are necessary to identify resource needs and justify resource requests.

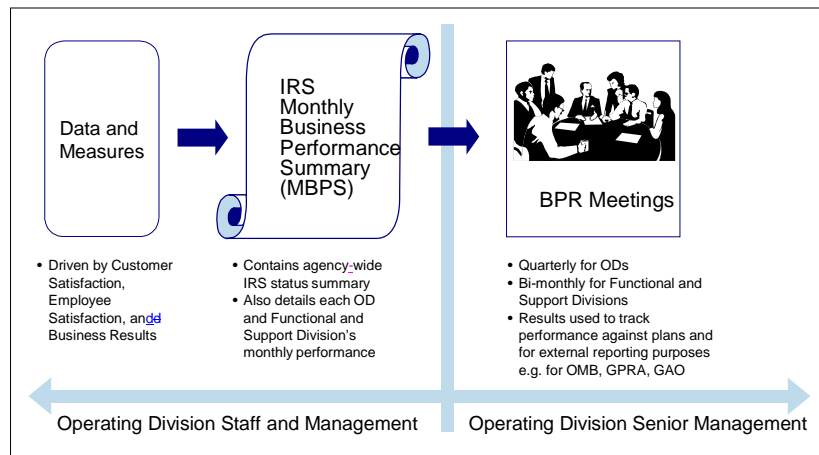
The Business Performance Review System:

The Business Performance Review System (BPR) is designed to be the IRS' central performance management process whereby balanced measures are used as a means of measuring, reporting, and reviewing business unit-specific progress against strategic and operational plans.

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During the BPR process, the essential elements of each business unit's performance are identified, defined, and tracked. Reports provide measurement data to senior managers, allowing continuous review of performance against key measures. BPR meetings are used to assess all business units' progress toward planned organizational goals and to identify cross-cutting issues in a timely manner.

Relationship of BPRS Elements



Continuous Process Improvement

In the Internal Revenue Service, each operating division uses cost benefit analysis, risk analysis, and prototyping in its evaluation and improvement of key processes. The overall approach to organizational improvement is the "plan, do, check, and act" cycle (Deming's Wheel). For specific design and process improvement projects and their implementation an operating division may use design teams. These design teams are composed of subject matter experts (SME) and end-users. Most design teams are composed of managers, often senior executives, and front-line employees. In addition, since 2001, at least one operating division, the Large and Mid-Size Business (LMSB) operating division, has been using the Baldrige Award assessment process to ascertain its strengths and opportunities for improvement. (NOTE: The Baldrige Award is a U.S. quality self-assessment system which allows organizations to measure themselves against the recognized best in their field.) These findings have been used in many areas to improve LMSB's organizational performance, for example, in implementing a new top-down communication process known as the Business Communication Strategy (BCS) and new measures that are more directly aligned to LMSB's strategic initiatives.

Large and Mid-Size Business-Specific Processes – An example of an IRS Operating Division’s Implementation and Tracking the Strategic Plan

- Organizational Governance

One of the primary mechanisms to ensure management accountability for the organization’s actions is the Performance Management System (PMS). The system provides a process to enhance organizational and individual performance by establishing clear expectations, providing continual support and feedback, fostering and developing open communications, and linking individual and organizational objectives. The system is designed to ensure executive and managerial accountability by strengthening linkages between performance management and the division’s overall mission, strategic goals, business plans, and balanced measures. The system is intricately linked to the performance review process to ensure fiscal accountability and to protect the interests of both internal and external stakeholders.

Recently, LMSB established a Governance Board to oversee the prioritization, development and implementation of information technology projects. It also approves and commits resources for the design and implementation of recommendations developed by design teams to further achieve business results.

- Organizational Performance Review

The system that LMSB has designed and implemented to track performance on an ongoing basis is comprised of several components. Each element provides a piece of information that, taken together, gives the Executive Leadership Team information needed to lead LMSB. These components include monthly snapshots of performance; Business Process Review (BPR) preparation and submission quarterly; one-on-one visits; site visits; and annual organizational health assessments.

Quarterly, as part of the Business Performance Review (BPR) process, a comprehensive document is created and used as a basis for the Division Commissioner and Deputy Commissioner’s meeting with the IRS Commissioner. Monthly snapshot reports of industry level business performance are prepared and provided to leaders to identify trends, and highlight potential areas for further development. Quarterly balanced measures reports graph each measure’s performance against the target and provide a status update on actions being taken to improve performance.

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In preparation for the site visits, the Office of Performance Management, Quality Assurance, and Audit Assistance (PQA), Strategy, Research, and Program Planning (SRPP), and the Industry Headquarters' staff provide balanced measures and other data that report on areas critical to the industry business plan and LMSB-wide plan. These data then form the basis for performance discussions during field visits.

Diagnostic tools have been identified, compiled and made available to field managers to help in understanding the factors that influence overall LMSB performance.

Key Performance Indicators

Key performance measures include Customer Satisfaction; Employee Satisfaction; Business Results –Quality; and Business Results – Quantity. LMSB developed a set of actions in support of its Balanced Measures that could easily be translated into specific performance commitments. Managers were encouraged to actively seek ways to build these commitments into their performance agreements as appropriate.

Snapshots from operations provide leadership with real-time information regarding organizational performance. BPR information covers all key business areas, balanced measures, initiatives, and areas of concern. This and other information is presented in comparison to business plan expectations. The annual health assessment provides an overall assessment of the organization and identifies areas of opportunities for improved performance. This assessment uses an externally developed standard for performance excellence as a basis for evaluating LMSB performance.

Within the LMSB Operating Division, each Industry and Headquarters Director submits a quarterly business plan update outlining action item accomplishments for LMSB strategic initiatives and balanced measures.

Field visits provide leadership with two key opportunities: the ability to meet one-on-one with each of the direct reports to discuss the implementation of specific actions within their areas of responsibility; and the ability to assess deployment of various key messages and initiatives.

A significant component of the performance of LMSB is Employee Satisfaction. Performance is measured through an annual census survey of LMSB employees, and is supplemented via a Climate Survey, site-

visit focus groups, and a flat organization that encourages front-line information on problems as well as successes.

The Role of Leadership

The LMSB Commissioner and Deputy Commissioner, in conducting one-on-one meetings with their executive direct reports bi-monthly, review the key performance measures and look for barriers to achieving business results. Site visits to the industry and division headquarters offices are used for in-depth discussions with the top level executives, focus group meetings with managers and employees, and visits to examination sites. Additionally, as part of the annual performance review process, mid-year and year end assessments are conducted and documented with each executive. The year end assessment for each member of the leadership team is reviewed and approved by the Division Performance Review Board which recommends the annual rating, bonuses, and/or level increases to the Service-wide Board.

LOOKING FORWARD

The Integrated Financial System

The Internal Revenue Service is implementing a new system that will integrate strategic planning, business performance and financial accounting. The Integrated Financial System (IFS) brings best business practices and tools to IRS in the areas of accounting, strategic planning and analysis, and budget formulation and execution, as well as cost accounting and enables IRS to meet numerous compliance requirements.

IFS has financial components designed to improve how the IRS inputs, tracks, and reports financial data. But IFS is much more than a new accounting system. IFS will help IRS employees plan better, manage better and measure performance better across the Agency. This package system software solution will enable the IRS to integrate the majority of its financial processes, share common data and practices across the entire organization, and produce and access information in a real-time environment.

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IFS will have the following impacts across the Balanced Measure indicators:

Customer Satisfaction

- Improved timeliness and quality of financial reports/data available to management and stakeholders
- Increased usefulness of cost information
- More efficient interactions with the IRS stakeholders
- Increased levels of services to all stakeholders
- Increased Compliance with Prompt Pay Act

Employee Satisfaction

- Improved business processes resulting in reduced manual effort
- Redirection of resources from information gathering to data analysis
- Improved forecasting and “what if” analysis capability
- Improved effectiveness and quality of work
- Extensive reporting capabilities/flexibility
- On-line capability and current data
- Faster access to appropriate data
- Consistent look and feel across all applications
- Enhanced workload management

Business Results

- Strengthened strategic planning and budgeting process
- Improved forecasting and “what if” analysis capability
- Compliance with all accounting policies and procedures
- Maintaining a clean audit opinion
- Reduced cycle time for key processes
- Timeliness of information and actions
- Enhance decision support information Increased compliance
- Improved public trust

The Integrated Financial System promises to tie together planning, program and budget execution, and evaluation for effective and efficient management of tax administrations.

CONCLUSION

At the major reorganization of the Internal Revenue Service in 2000, a comprehensive strategic planning approach integrating strategies, budgeting and evaluation of business results was implemented. In its fifth year, the process has matured and has delivered to the organization, as a whole, and to each operating division refined strategies, improved targets and measures, tactical business plans and an integrated financial accounting system. It is essential to keep at the forefront that tax administration leadership is required to assure that a planning process delivers desired business results.

The benefit of an integrated strategic planning process is that it delivers to our citizens a much improved tax administration that uses resources wisely, tracks accomplishments and eliminates barriers to success. Control of the implementation of strategic planning is essential to accomplishing the public mission of tax administration and to strengthening public confidence in the tax system.

Case study

TOPIC 3.1.

THE CONTROL OF STRATEGIC PLANS

Frank Daly

Chairman, Revenue Ireland
Revenue Commissioners
(Ireland)

CONTENTS: Strategic Planning in the Public Service.- Strategic Planning in Revenue.- Role of Strategic Planning.- What is our methodology for updating the Strategic Plan?.- First, some basics.- How do we control compliance with the Strategic Plan?.- Revenue Performance Scorecard (RPS).- Conclusion.

I've been asked this morning to talk on the "Control of Strategic Plans" and I'll do so in the context of Strategic Planning in the Office of the Irish Revenue – the Tax and Customs Administration in Ireland.

First of all, let me fill in a little background of strategic planning in both the Irish Public Service and the Irish Revenue.

STRATEGIC PLANNING IN THE PUBLIC SERVICE

Within the Irish Public Service there is now a very structured system for assigning responsibility and ensuring accountability in Government Departments like Revenue – a system which, it would be fair to say, has developed significantly in very recent years following two

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Government Programmes - The Strategic Management Initiative in 1994 and Delivering Better Government in 1996. At the heart of this are two pieces of legislation which set out the framework within which Departments and the Heads of those Departments operate and account for their performance both to the Oireachtas (Parliament) and to Government.

Most important for the former (Parliamentary Accountability) is the Comptroller and Auditor General legislation which underpins the independent auditing of all Government Departments and the annual (or indeed sometimes more frequent) appearance by myself as Accounting Officer for the Revenue before the Parliamentary Public Accounts Committee. These proceedings are public and indeed usually provoke much media and public interest.

Of more direct interest to us here this morning is the second, and more recent legislation, the Public Service Management Act, 1997, as there is a deliberate and unambiguous focus in that Act on a strategic planning approach to government business. Among its statutory requirements are the following:

- Each Department must produce three-yearly strategic plans;
- Each Department Head (including myself) must present that plan to our Minister and have it accepted and approved;
- Each Department must report progress on the Plan each year in an Annual Report to the Minister which is published and is often (at least in the case of Revenue) subject to intense media and public scrutiny.

STRATEGIC PLANNING IN REVENUE

I could spend a lot of time talking about the background to strategic planning within Revenue itself but it can be summarised as follows:

- In the mid-eighties there was widespread dissatisfaction with the administration of taxation in Ireland – a Commission on Taxation summed it up as follows: *“The administration of taxation in Ireland has virtually broken down. Non-compliance is a major problem. The situation will get worse unless the evident problems are tackled quickly and with determination. Radical measures are needed.”*

- Among those radical measures was the introduction of self assessment for the self employed and companies; the publication of a Revenue Charter of Taxpayer Rights and the adoption of a basic philosophy that good customer service could be a key driver of increased compliance;
- We needed therefore to revise our whole approach towards one of providing a service which minimised intrusion by Revenue into the private and business lives of our compliant customers and which focussed resources and effort on the non compliant sector, and;
- We needed to plan for this change in attitude, approach and business model.

We began to use terms like strategic plans, corporate plans, business models and the like but, in reality, it was pretty basic business re-engineering and designed, not so much with grand visions in sight, as with simply getting us off the floor! Essentially we asked everybody to stand back, look at the service we were giving and the systems and procedures we had in place. We asked managers and staff to question the norms and ask themselves *“is what I am doing relevant, necessary, and adding value or am I doing this because that’s the way we’ve always done things?”*

Following this period we began to see the value and indeed the absolute necessity for more structured and formalised planning which would have a longer-term focus and look beyond Revenue itself. In 1994 we adopted our first three-year plan covering the period 1994-1997 and every three years since that we have adopted a new Plan – we are now mid-way through our 2003-2005 Plan and are already focussed on the business of developing our Plan for 2006-2008.

ROLE OF STRATEGIC PLANNING

Let me move on now to the first of three specific questions which CIAT asked me to deal with in this talk – firstly **what is the role of strategic planning in our organisation?**

Well, in the first place, it’s the vehicle by which we set out our high level goals and objectives for the period covered – we keep those to a minimum but we underpin each of these objectives with a series of

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strategies and for each of these strategies we set out key performance indicators which will enable us to take regular stock of how we are doing. A reading of our Plan will inform anybody – whether they work for us or not – about Revenue’s priorities and the high level approach we are taking to delivery of those priorities. That’s useful for our Minister, for Government, for other Government Departments on whom our work has an impact (the Irish Government regards a “joined up Government” approach to service delivery and national development as an absolute priority) for the media and for the citizens of Ireland.

Secondly, our Strategic Plan is important because of the structured and regular framework it provides for consideration of the main issues facing us as an organisation – it “reminds” us to engage in scanning of the external environment, fundamental review of our general approach, re-consideration of our priorities, consultative engagement with our stakeholders – matters that, without this framework, might well fall victim to that well known trap of the “urgent driving out the important”.

Most important of all though, our Strategic Plan is the overarching framework within which our staff operates in doing the business of Revenue. We place huge importance on all our staff being fully aware of our priority goals and of the strategies that we have adopted for delivery. The Strategic Plan is the starting point for this and it is cascaded down through the organisation via two key conduits:

Divisional Business Plans are required for each of our Business Divisions both at Division level itself and at individual Business Unit level within Division – and no matter how low down the chain they go these plans are always based on, and cross referenced to, the Strategies in our Strategic Plan.

Performance Management Development (PMDS) is a programme within which every single member of our staff receives a personal outline of his or her individual work goals and personal development opportunities. Each year this is put in place for each official in discussion with his or her manager – the goals and opportunities are agreed and these are reviewed at regular intervals during the year with the manager. Again in PMDS the focus in the matter of work goals always leads back via the Business Unit Plan, to the Divisional Business Plan to the organisation’s Strategic Plan.

We believe that an informed workforce, who can make the link between their day-to-day activities and the higher level strategic goals of the organisation, is the key to successful implementation. Too often we hear of well researched, well presented Strategic Plans that fall down on implementation. Very often this happens because we have neglected to stitch in the strategies all the way down to our frontline staff. This cascade effect that I've just described is vital to success in the Irish Revenue.

WHAT IS OUR METHODOLOGY FOR UPDATING THE STRATEGIC PLAN?

The second question CIAT asked me to deal with today is *the methodology for updating our strategic plan*.

First, Some Basics.

It goes without saying that for any Government Department it is essential in planning ahead to take account of changing Government priorities (in Ireland these would be spelled out in various Programmes for Government and National Partnership Agreements); the economic climate; IT opportunities and developments; management thinking; and the best developments in comparable Administrations abroad. Indeed many of Revenue Ireland's best strategies are blatantly plagiarised from some of the Administrations represented here – for which thank you!

It's also essential to have good research and information about what's going on out there in the general environment both at national and international levels; what's happening in the different taxpayer sectors – financial, trade, pharmaceuticals and so on. What's the thinking in regard to tax developments worldwide? Where's the money moving to? Where are the new avoidance schemes?

Now, bearing in mind the nature of the work that Revenue Administrations perform, it is to be expected that there will be considerable continuity in terms of the high level goals that appear in our Plans from year to year. Nevertheless it is important that we do not follow a previous plan slavishly; that we feel free to move in different directions within the three year cycle if events dictate or new opportunities arise and that the whole process is not overly rigid or bureaucratic. *[A very good example of this in the Irish Revenue context is a recent initiative on offshore accounts. This had*

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not figured anywhere in our current three-year Plan but events and opportunities prompted us to move – with pretty spectacular results.]

The particular methodology we use in Revenue Ireland for updating our Strategic Plan (both during the life of the Plan itself and when we devise a new one) relies heavily on various structures and groupings who are asked to take on the task of keeping abreast with all the developments which impact on our business. Sometimes this happens within a formal structure focused directly on the Plan, other times it happens in various business groupings in the organisation where the business agenda is itself developing and contributing to our strategic thinking. The most valuable lesson we have learned is that the more people you have involved in the planning process – whether it be through formal or informal structures – the better your output will be.

Thus, on the more formal level, a recently created Strategic Planning Division has raised the profile of Strategic Planning within Revenue and they have a particular remit which involves strategic research, overseeing the development of corporate strategy, evaluating corporate performance, and the regular coordination and production of both the Plan itself and the frequent reports to senior management of progress on the achievement of objectives.

Our Board and Management Advisory Committee (MAC), which comprise the top management layers of the organisation, take the lead in setting and updating the overall strategic direction of the organisation. They are (and it's important that they are) a strong questioning team – above all in these groups we try to avoid the dangers of groupthink. It's indeed often the case in these groups that by the time strategies begin to crystallise the reality is that pieces of them are already being implemented – because problems have been sensed and surfaced in the MAC and actively responded to.

I cannot emphasise too much the real importance of bottom-up input of staff into reviews and adoption of Strategic Plans as this is key to giving them ownership - and ownership is key to successful implementation. We do this through partnership groups and through focus groups which we ask to look at particular areas of difficulty or where we need to consider a new approach. Staff at all grades and from different disciplines are represented on these groups which are chaired by a senior manager but – and this is important to ensuring new thinking – not by the manager with functional responsibility for the matter under consideration.

Finally, we take soundings and gather the views and comments of our external stakeholders through ongoing structured and casual contacts with business and professional representative groups. We regard these views as very important, as very often the people represented here – accountants, payroll managers, tax advisors, software house – are in effect working with us in the administration of the tax system.

How do we control compliance with the Strategic Plan?

The final question which CIAT asked me to deal with today is this – *how do we control compliance with the Strategic Plan?*

When we introduced our first Strategic Plan over ten years ago now we faced a variety of responses:

- **Scepticism**, that this was just another paper exercise preventing people from getting on with their real work!;
- **Suspicion**, that the process would be overly intrusive and was really about closer monitoring and performance measurement;
- **Enthusiasm**, fortunately amongst a goodly number, that this was a better way to run the organisation and give people a clear view of what the priorities were and how they were involved in achieving them.

It has taken a good deal of time and of open and frank discussion with staff and managers at all levels to get to the point where the process has wide acceptance within Revenue, where the initial doubts are firmly in the past and where the process is seen to add real value. There is however, every day, the continuing challenge of making the Plan meaningful to all staff – we have a firm belief that the best way of ensuring compliance with the Plan is to make it a living plan for everybody.

For this the Plan must be at the core of everybody's work and the essentials here are, as I've already mentioned, to have staff at all levels involved in its development and to have the "cascade effect" right down to the individual Unit business plans and to the personal development plans of each staff member.

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That, of course, will not be anywhere near enough to ensure compliance – for us there are four other “control mechanisms” that I would like to highlight.

The *first* of these relates to the very structure of the organisation which we view as a significant control instrument in itself. Clearly defined accountability as regards implementation of strategies is essential – as Head of the Organisation I need to know what individuals have responsibility for the separate aspects of our strategic business priorities and, just as importantly, those individuals need to know that I know – and that I will hold them accountable!

Last year we restructured Revenue on a regionalised, taxpayer segmented basis and one of our reasons was to get this greater clarity and certainty as regards responsibility for implementation of strategies.

The *second* “control mechanism” is the matter of formal reporting systems to ensure that we are on track throughout the lifetime of the Plan. These are probably pretty standard stuff and I don’t need to dwell on them for too long.

As I mentioned earlier, for each of the strategies in the Strategic Plan we have defined high-level performance indicators. Each of the business areas that in turn take on certain business objectives related to the Strategic Plan will also have its own specific performance indicators for these objectives. For all these indicators there are systems of periodic performance reporting.

The Board of Revenue, and myself as Head of the Office, will receive composite performance reports on all our key priority areas on a quarterly basis at a minimum and more frequently if appropriate. Each of our top management team will be receiving additional reports on performance in their own areas of responsibility. Throughout the year the Divisional Managers each come before the Board to report progress in the areas of responsibility – all of these reports are structured around the Strategic Plan.

The *third* “control mechanism” is based on the fact that each year, under the legislation I’ve already mentioned, we are required to publish our actual performance against Strategic Plan targets in our Annual Report to the Minister for Finance. This Report goes to Government for approval and is launched at a Press Conference by myself as Head of Office.

This launch and Press Conference attracts enormous media coverage and our results are usually the main news item on radio and TV for that day and in the print media the following day. It is a very public method of accountability and as you can imagine does focus our minds on compliance with our Strategic Plan!

Revenue Performance Scorecard (RPS)

Finally, I would like to tell you about a new “compliance mechanism” development which we have called the Revenue Performance Scorecard or RPS, which will take the measurement of our performance to a higher level than we have engaged in up to now. It is set against the backdrop of a Government decision to develop a Management Information Framework in all Government Departments. The objective of this Framework is to bring about better outcomes for citizens through the more effective use of State resources.

Our development of a Revenue Performance Scorecard (RPS) in this context goes to the heart of linking strategy with delivery and getting the desired outcomes.

It is designed to help us:

- Ensure that we are giving the right weighting to objectives;
- Match outputs and inputs to gauge relative efficiencies;
- Achieve more objective and results driven resource allocation;
- Monitor progress over time by reference to a baseline year; and
- Support us in public accounting for our performance.

We have developed our RPS following consideration of a number of corporate performance methodologies – including “The Balanced Scorecard”, “The European Foundation for Quality Management Excellence Model” – and having researched performance measurement practices in a number of other countries.

The Scorecard provides information about performance across all of the goals and strategies in our three year Strategic Plan. It “scores” performance by setting a baseline year of 2002 (the year prior to commencement of our current Plan) and by measuring performance in subsequent years by comparison with this baseline.

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The Scorecard uses some 70 separate Key Performance Indicators that are representative of 13 different business programmes and each of these indicators measures performance at corporate level in terms of efficiency and effectiveness. It will provide multi-dimensional analyses of business performance, for example by Strategic Plan Objective, by Strategy and by Business programme. It can also deliver objective inter-Divisional and Business Unit comparisons and evaluations.

The RPS is at an early stage of development but we were able to publish provisional results in a number of areas in our Annual Report for 2003 which was launched recently. We have to overcome a number of challenges in relation to the Scorecard – not least those of developing effective measurement criteria for some of the less easily measured activities and making sure that we apply the correct weightings to each item we measure so that they accurately reflect their relative importance in the overall Revenue agenda. Finally I should mention the challenge of dealing with results that appear to be too good to be true! This happened us in our first year of publication where the percentage improvement over the baseline year was phenomenal in some areas!

I am aware that many other Revenue Administrations are actively engaged in measuring performance and in looking at the best ways of achieving this – some very brave Administrations are even measuring the tax gap and want to be judged on their progress in closing it! We're thinking about that!

CONCLUSION

Colleagues, I hope in dealing with the three questions posed by CIAT for this paper that I have explained what is happening in my Administration and that some of it at least will be of interest to you. Strategic Planning plays a vital role in developing any organisation's capacity and capability. Knowing precisely how an organisation is performing relative to its Strategic Plan is a major challenge and there is no single answer or no ideal methodology. To a large extent indeed it depends on the organisation itself and the extent to which that organisation has modernised and embraced the ethos of objective self-evaluation and public accountability. And of course Public Accountability in turn is influenced by the political and regulatory regime that pertains in each country.

My final word would be to again emphasise the need for all of the people in the organisation to have ownership of the Strategic Plan – in that way it becomes a “living entity” and assists in giving staff a sense of purpose and belonging; of knowing that what they do each day (no matter what level it may be at) is reflected in the organisation’s Strategic Plan and contributes to the Organisation’s results.

Case Study

TOPIC 3.2

THE CONTROL OF PRODUCTIVITY AND RESULTS, BENCHMARKING

Peter Richer
General Manager
Risk Management Division
South African Revenue Service - SARS
(South Africa)

(Note of the Publisher) We incorporate to this publication the reproduction of the Power Point presented by Mr. Peter Richer – General Manager, Risk Management Division.

INTRODUCTION TO SARS

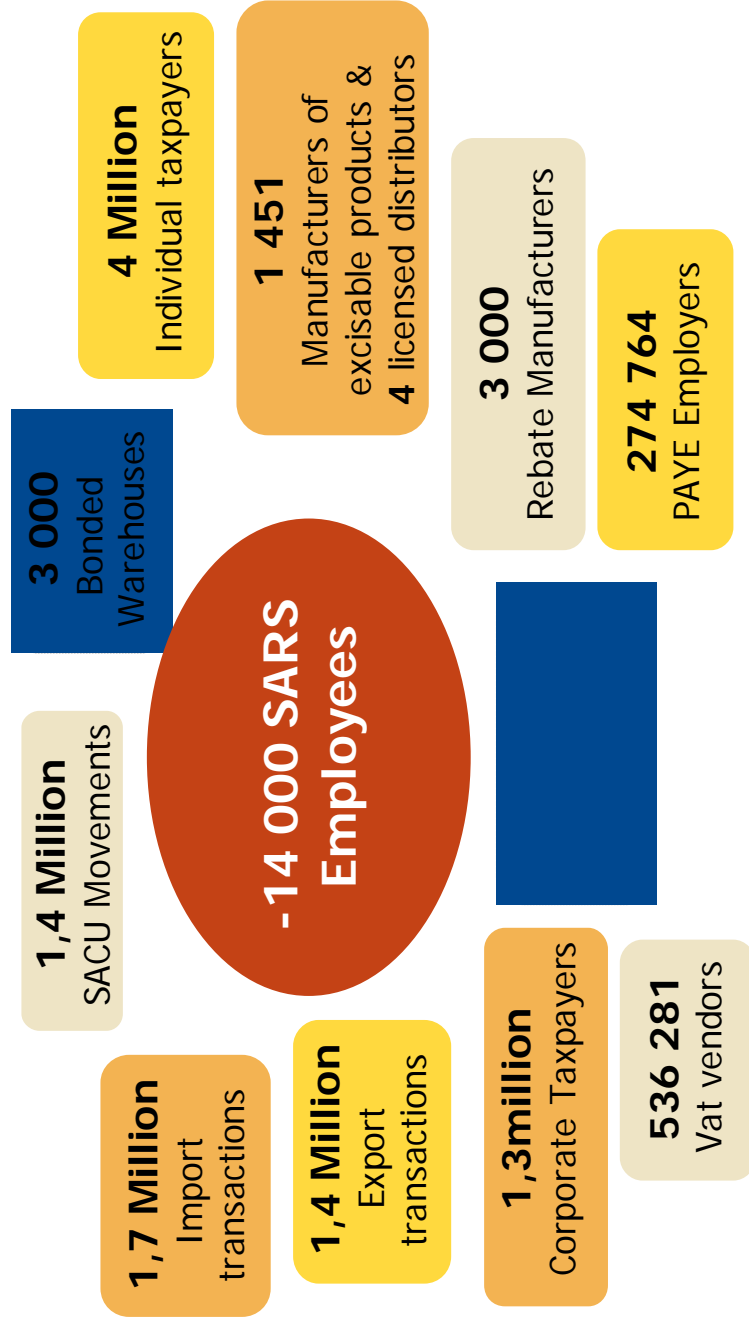
The SARS Mandate

- The organisation is tasked to efficiently and effectively collect -
 - all national taxes, duties and levies imposed in different pieces of taxation legislation
 - all revenue that may be collected in terms of any other legislation, as is agreed between SARS and the organ of State or Institution
- SARS is also responsible for the control over the import, export, manufacture, movement, storage or use of certain goods
- The organisation is also responsible to the provide advice to the Ministers of Finance and Trade and Industry to on all revenue and customs matters

The SARS profile

- ⇒ Collects approximately 90% of the government's revenue, in excess of R300 billion in direct and indirect taxation
- ⇒ Administers 22 tax types
- ⇒ Deals with over 5 million taxpayers/ taxpaying entities
- ⇒ Operates from over 100 sites nationwide
- ⇒ Employs over 14 000 staff
- ⇒ Administration costs <1.5% of revenue collected (developed countries 2%; developing countries 4-5%)

SARS VOLUMETRICS



OUR LEGACY

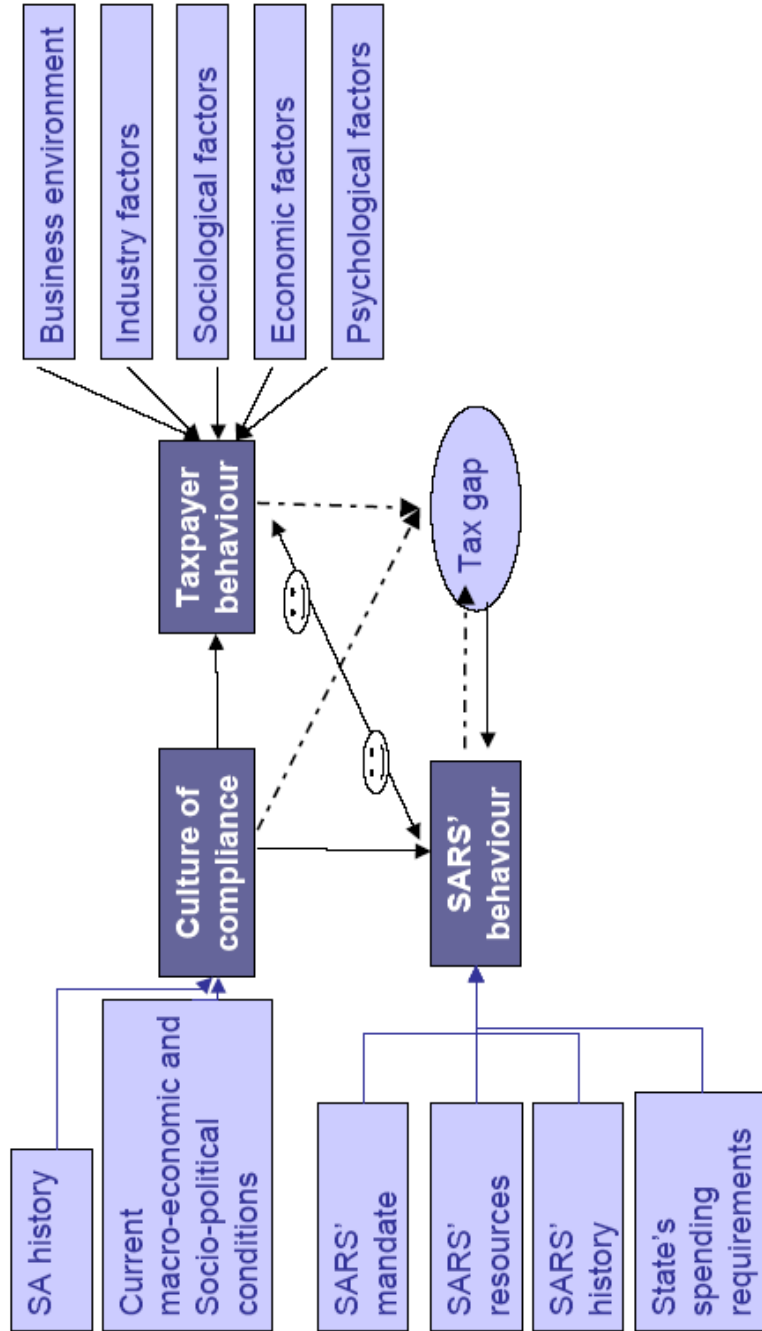
- ⇒ 11 separate departments within the Department of Finance.
- ⇒ Declining performance against revenue targets
- ⇒ Unwieldy organisation structures, many layers of management
- ⇒ Procedures were highly bureaucratic, manual and clerical in nature
- ⇒ Weak and outdated physical infrastructure
- ⇒ Wholly inadequate technology infrastructure - disparate line of business systems
- ⇒ Low staff morale with minimal representivity, limited career opportunities and lower than market related remuneration
- ⇒ Prevalence of internal fraud and corruption

OUR LEGACY...The SA Climate

The South African compliance climate reflected

- Low tax literacy vs. high tax complexity
- Low tax morality
- Negative perception of the tax system and administration
- Weak protection of our borders against illicit trade
- Preferential tax treatment
 - Certain sectors
 - Greater ability to distort tax burdens among the affluent

BEHAVIOURAL CHART



NEW BEGINNINGS

⇒ **1 April 1996**

- Established SARS as a separate Government Department

⇒ **1 October 1997**

- Administrative autonomy
 - Separate legislation enacted by Parliament to provide for tax and customs mandate
 - SARS no longer part of Public Service but still part of Public Administration outlined in Constitution
 - SARS now determines own staff establishment as well as conditions of employment
 - Functions performed under the policy control of Minister of Finance and an Advisory Board
- Staff of former branches of Inland Revenue, Customs and Excise and Administration transferred to new single department

SARS KEY STRATEGIES

- Increase Revenue Yield
- Provide Service Excellence
- Responsible Enforcement
- Performance Culture
- Build Capability
- Good Governance

EVOLUTION OF SARS

- ⇒ **Introduced modern employment practices**
 - Standard job descriptions and job specifications
 - Career paths
 - Competitive remuneration
 - New collaborative approach with Unions
- ⇒ **Redefined strategic direction of SARS**
 - Vision
 - Mission
 - Values
 - Taxpayer Charter
 - Code of Conduct

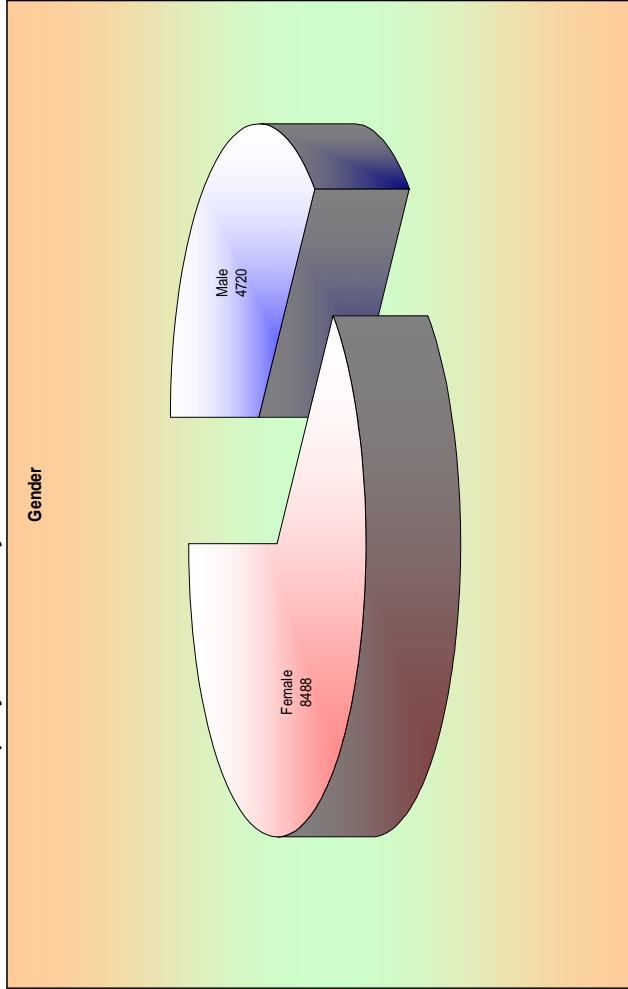
EVOLUTION OF SARS

- ⇒ **Refocused efforts on enforcement**
 - Increased audit capacity
 - Introduced new tools and techniques
 - Rolled out national campaigns addressing high risk areas

- ⇒ **Siyakha “We are Building”**
 - Transformation programme launched
 - Commenced with organisation wide diagnosis
 - Implementation of pilot in Kwa-Zulu Natal region
 - Established centres (Taxpayer Service; Assessment; Enforcement; Customs)
 - Appointment of a new, representative management team
 - Provision of modernised infrastructure
 - Streamlined and standardised business processes – supported by new policies, procedures and skills
 - Provided a dedicated frontline environment for taxpayers
 - Focused, high visibility enforcement interventions addressing high risk industry sectors and taxpayers

GENDER RATIO

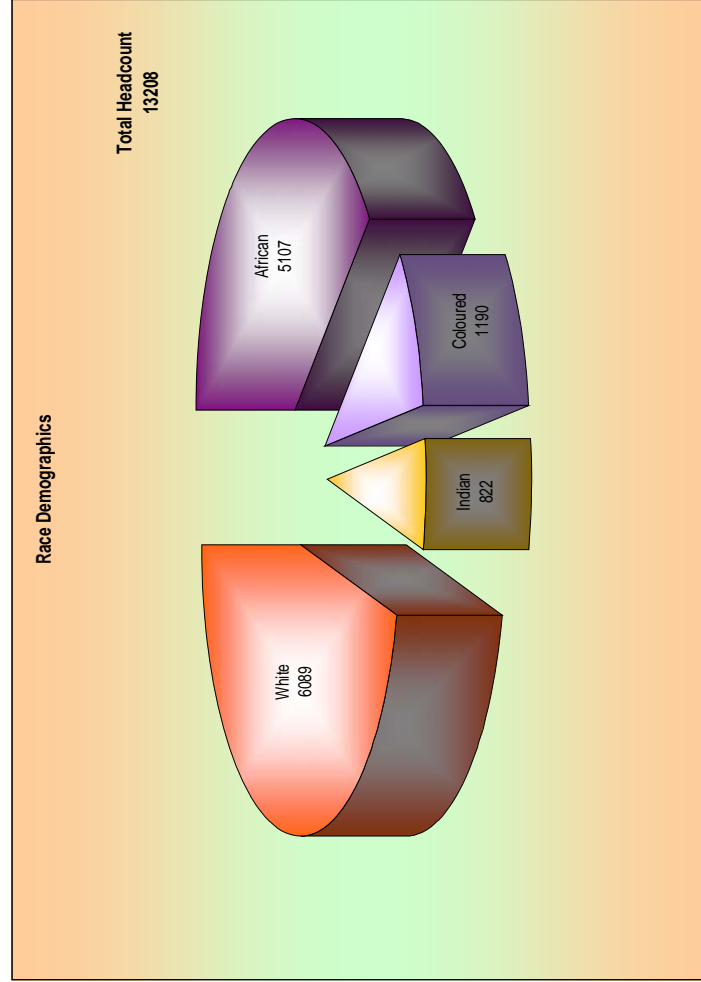
64% of the employees in July '04 were Female and 36% Male



RACIAL DEMOGRAPHICS

The demographics as a percentage of total headcount were as follows:

White	46%
African	39%
Coloured	9%
Indian	6%



AT A GLANCE...10 years of delivery

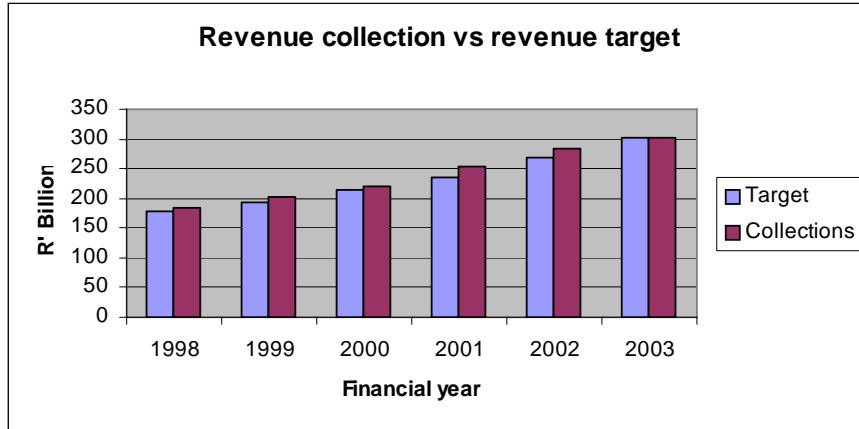
BEFORE

Low Revenue
Weak customs
Inefficient processes
Ineffective enforcement
Poor compliance
Poor technology
Low skills

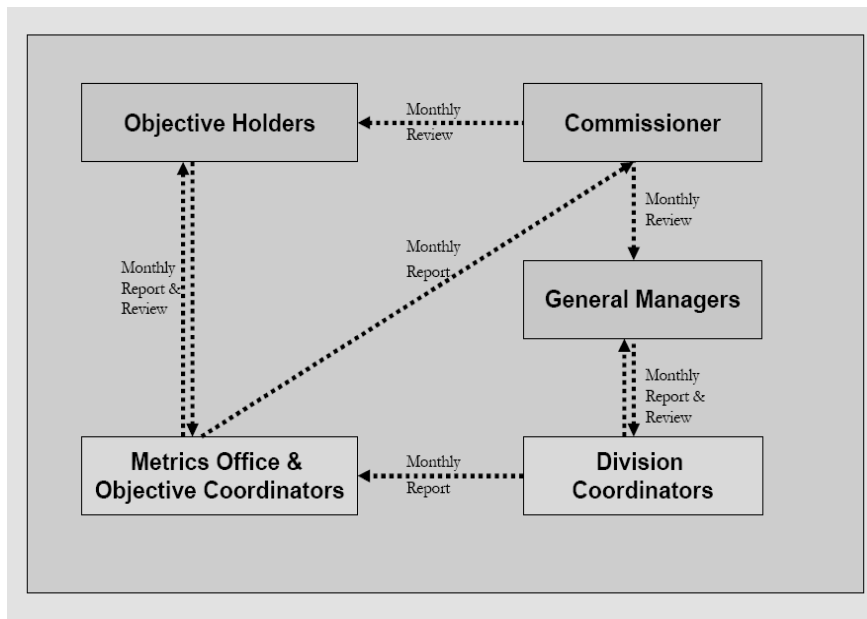
AFTER

Significantly increased revenue collections
Visible and more efficient customs
More efficient, streamlined and integrated processes
Visible and more efficient enforcement
Increased compliance culture
Enhanced and stable technology platform
Enhanced focus on development of technical and management skills

REVENUE COLLECTION



REVIEW FRAMEWORK FOR MEASURING PRODUCTIVITY



**WHAT MUST CHANGE IN ORDER
TO INCREASE PRODUCTIVITY**

- **Embodiment of new values**
- **New “co-operative governance” approach is needed**
- **Business plan – the focus**
- **Align & Measure**
- **New work culture**
- **Move way from the old to the new**
- **Support new offices / old offices**
- **Strong policy focus**

**CHANGES IN SARS TO INCREASE
PRODUCTIVITY?**

- **Delineation of functions into:**
 - Strategic / planning
 - Operations
 - Support functions
- **Consistency across operational divisions:**
 - Creation AGM positions:
 - AGM: Operations
 - AGM: Policy
 - AGM: Planning / Research / Special Projects
 - Creation of Senior corporate support manager in each division
- **that will look at:**
 - Knowledge management;
 - Change management;
 - Human development;
 - Financial management;
 - Planning and PMS; and
 - Internal control.



Smarter SARS

- More efficient
- Electronically enabled

Visible SARS

- Touching all segments
- Tax officers in the field
- Increasing access to taxpaying community

Responsive SARS

- Better Service
- Swift detection and deterrence of non-compliance
- Learning organisation – leadership and technical capability

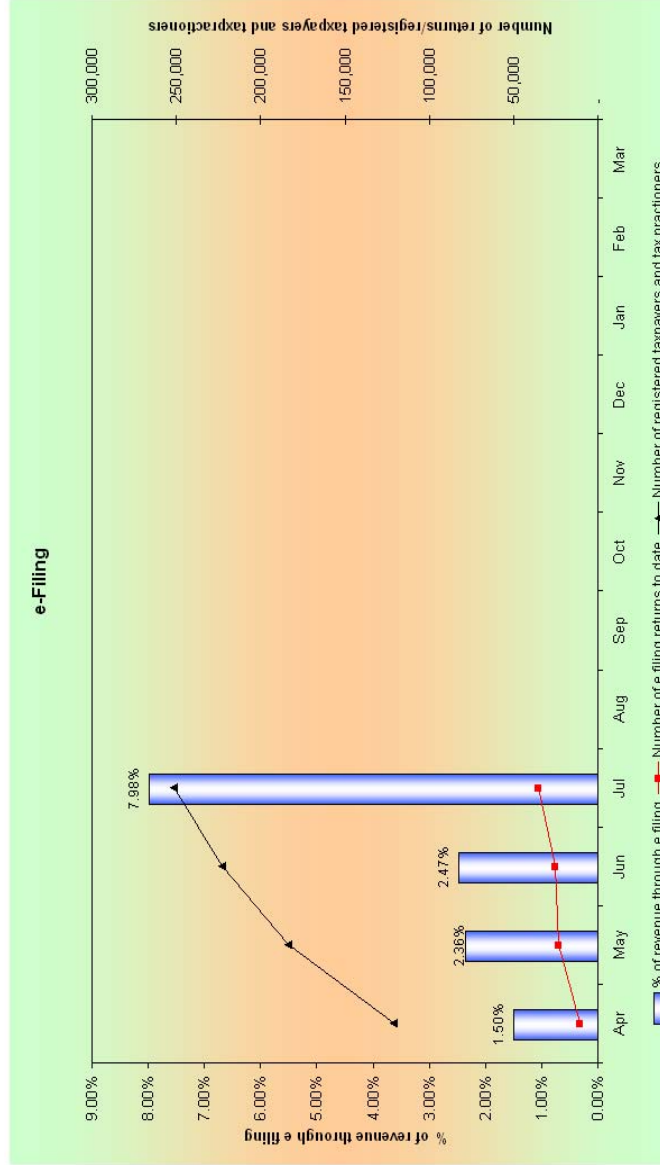
These outcomes translate into sustained compliance and delivery on revenue targets

NOTEWORTHY ACHIEVEMENTS

- ⇒ Consistently exceeded revenue targets despite undergoing organisation wide transformation
- ⇒ Successfully introduced challenging legislative changes eg. RBT, CGT
- ⇒ Shifted the compliance culture in SA through targeted, visible enforcement
- ⇒ Expanded the business to take on new tax products eg. UIF and SDL
- ⇒ Made initial strides in entrenching a service culture
 - Provided dedicated service areas
 - Established a SARS Service Monitoring Office
 - Released a draft Taxpayer Charter which will entrench service standards
 - Introduced an online customer feedback system to gauge service satisfaction
 - Implemented dispute resolution procedures for speedier resolution of administrative issues
- ⇒ Engaged in local, regional and international for the sharing of best practices and technical exchange of information
 - A different way of doing business through the offerance of:
 - E-filing
 - Customs Accredited Client Scheme
 - Signing of Memoranda of Understanding (MOUs) and Memoranda of Administrative Assistance (MAAs)

E-FILING

The number of new taxpayers registered for e-filing during July was 251 375 with 35 313 returns filed through E-filing. The revenue from e-filing payments was R 1.93bn (YTD R3.62bn)



A REALITY CHECK

⇒ **Change is ongoing**

- We've achieved a lot...but there are still many challenges that remain

⇒ **Challenges we are facing**

- Revenue administration as a suitable response to the dualistic nature of the South African economy
 - Widen the net to include both economies; reduce the tax gap
- Building fiscal citizenship to ensure a climate of sustained compliance
- Achieving a robust administrative machinery that supports revenue growth in a highly effective and efficient technology enabled organisation
- Further transforming the organisational culture to reflect greater professionalism, service and integrity

THE NEXT WAVE FOR INCREASED PRODUCTIVITY

⇒ A vision for 2010

- Individuals
- Business
- SMEs and large corporates

⇒ Key shifts

- Inward administrative view to outward taxpayer view
- Reactive to proactive engagement
- Manual to automated

⇒ Compliance strategy

⇒ Institutional transformation

RECIPE FOR OUR SUCCESS...

- **Overall fiscal reform – tax policy and tax administration changes in tandem**
- **Political support of Minister of Finance**
- **Administrative autonomy brings greater flexibility and control**
- **Create a vision for the future**
- **Transformational passionate leadership – actively driving change and instituting a new way**

RECIPE FOR OUR SUCCESS...

- **Create a critical mass of change drivers**
- **Evolutionary change but revolutionary thinking – sustain the change. Implement change in manageable chunks**
- **Willingness to engage with all stakeholders and across all functional areas of the business to achieve a holistic robust solution**
- **Integrated process view and enhanced business knowledge**
 - **Staff loyalty, resilience and adaptability – effective change management programmes**
- Pursuance of organisational coherence
- Create the space to innovate
- Donor support and direction
- Adequate resourcing and capability
- Market related remuneration for staff linked to performance

SUCCESS BREEDS SUCCESS!!!!

AN EVOLVING BUSINESS MODEL...

- Proactively **reducing the tax gap** and enhancing revenue collection by growing the tax base
- Increasing **compliance and enforcement capability** to meet the needs of the primary taxpayer segments and to address high risk areas
- Investing in **appropriate cost effective technology** that improves service delivery and processing efficiency
- Empowering our staff through appropriate **devolution of authority**
- Investing in **skills upgrade** and creating a work environment that supports learning and innovation and building a knowledge based organisation where intellectual capital is our core competence
- Reducing administration and compliance costs by pursuing the **optimal balance between encouraging and enforcing compliance** that is relevant to the SA compliance climate
- Implementing the SARS compliance strategy that provides a **consistent response driven by taxpayer behaviour**

Case study

TOPIC 3.2.

THE CONTROL OF PRODUCTIVITY

Mario Alejandro Aranguren Rincón
General Director
National Directorate of Taxes and Customs
(Colombia)

CONTENTS: Integral Control.- The Balanced ScoreCard (BSC).- The New Organizational Era.- MUISCA Model.- The Strategy.- Processes and Technologies.- Incentives to Productivity.- To Conclude.

“If we do not ask ourselves how we do what we do, nothing happens, we continue doing what we do as if we had the capacity to do what we do as an intrinsic property. However, if we ask ourselves: how do we do what we do? We open up a space for reflection. Moreover, of course, the question, is requesting in response, an explanation. How do we do what we do? If we accept the question, we commit to or propose to listen to the proposal. On what? Well, of an explanation, and what do we want to hear? The proposal of a process such that if that result takes place it would be what we want to explain.”

Humberto Maturana¹

“Control as Key Management Function” this is one of the interesting topics selected by the Inter-American Center for Tax Administrations for its 2004 Technical Conference.

¹ Maturana, Humberto. “Biology of Knowledge, biology of love”. Love Therapy Workshop, Human Development Research Workshop (TIDEH). Barcelona, Spain, 1985.

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The document presented hereinafter is on the Control of Productivity and I hope it complements the presentations made by the colleagues in charge of lecturing on general control topics and the control of strategic plans.

I will attempt to describe the model proposed when the President of the Republic of Colombia invited our institution to collaborate with his administration, and this model was constructed based on experience acquired from contact through international consulting for a decade with different tax administrations of Latin America; to try to approach the successful case of the Spanish Tax Agency; the private sector was invited to participate, since they were aware of the importance their contributions as economic actors with experience in administrative and managerial topics, and the value of committing to a project which purpose is to provide better service, and which means to be subject to control keenly exercised by our organization.

The premise on which the task was undertaken has the purpose to first address the question that Chilean scientist Humberto Maturana suggest in the quote at the beginning of this paper, which is: **How do we do what we do?** We know that by ignoring our own reality we stand to fail reform processes undertaken daily in organizations throughout the world.

Our own personal experiences teach us that it is impossible to direct, and much less control with the success expected, what is not known with an optimum level of certainty. Even worst, more frequently than what we imagine, new managers or company directors and entities do not even know what they should know; direct the destiny of the organization. Usually, they only look for financial results.

The Tax Administration of Colombia is currently undergoing a modernization process, which objectives we have written as our institutional mission, where we recognize ourselves as responsible of providing a facilitation and control service to the economic agents, to comply with the norms that form part of the Tax and Customs System, obeying the constitutional principles of the administrative function, with the purpose of collecting the correct amount of taxes, speed up foreign trade operations, promote loyal competition conditions, provide reliable and timely information, and contribute to the social and economic well being of Colombians.

Aware of these responsibilities, we expect to have consolidated in the mid-term the following:

- ✓ The fiscal authority of the Colombian State as a whole.
- ✓ The institutional autonomy that we have.
- ✓ High level of qualification and commitment among officials.
- ✓ High levels of voluntary compliance by taxpayers, withholding agents and customs users.
- ✓ The permanent and qualified availability and use of the information, our basic input, with a wholesome sense.
- ✓ The adequate development and adaptation of processes and standards.

To guarantee these achievements, we must identify, design, build and commission human, technical and administrative resources that are appropriate to adapt the society's tax burden to the economic reality and simplify tax and customs systems. That is, to know the entity and know how it operates and how it should operate. Of course, always recognizing, we permanently move in dynamic environments that define self-analysis and, internal and external control as the best follow-up tools.

Regarding the control topic, our entity, as most tax administrations, has implemented systems whereby the behavior to the taxpayers with tax and customs norms is overseen. Even though this is not the specific issue of this conference, it is important to recommend that it be included in the technical agenda of future conferences, because of its repercussions in the targets set forth by the tax administrations.

The perfection of monitoring mechanisms, for which our organizations are responsible of, represents concrete advances in productivity. To grasp this idea, we must consider that examination processes must focused on not only increasing the risk perception detected in the taxpayer, which indirectly increases voluntary compliance, therefore collection, but rather in the fact that this process should be performed in a timely and effective manner, so that the time that elapses between default and collection is as minimum as possible, thus increasing the possibilities thereof.

Integral Control

The integral ingredient required by our Tax Administration, by virtue of the ample action field that it covers, imposes its strategies at an additional level of complexity, which requires independent functions (Taxes and Customs) to be able to come together when establishing targets and

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evaluate the results of the organization. Specially, it requires controls that are much more general, more integral, where the results to evaluate and the indicators to be used ideally refer to the organization as a whole.

This is precisely the concept we are referring to when we talk about the Control of Productivity. An indicator of 120% compliance in collection levels is not enough, as set by the main macroeconomic authorities. This number on its own only pertains to the financial perspective, which, while being important is not enough to qualify the integral management of the entity.

For example: an economic boom is automatically reflected in more income and taxes to pay. Therefore, statistical registries in this case could be concealing inefficiencies that the figure alone cannot reveal. Conversely, a recession can damage collection targets, in spite of the fact that the Tax Administration is ruled by more demanding calibration levels, including those pertaining to productivity control.

The first paragraph of the guide placed at our disposition for this conference states:

“There are different perspectives and levels of control, such as strategic, managerial and operational control, directed towards results. There is process control as well, which is related to functions and processes. There are financial controls, which are directed to money transactions and flows, as well as quality controls, which refers to the quality of the products”

From the modern point of view, which will be stated herein, the conception of control abandons fractioning as those mentioned in quotation, because they can negatively influence the entire organization.

CIAT rightly attributes importance to Control of Productivity, since it considers it to be closely linked to the relation between the results achieved and the magnitude of the results productive factors used and emphasize on the incidence that external factors have on productivity and the evaluation thereof.

Particularly in Latin America, of course, usually encouraged by immediate financing purposes, so common and so understandable in this part of the world, governments tend to pressure the Tax Administration to comply with collection targets above anything else. The scope of control

only reaches up to this point. Therefore it is not usual for officials to dedicate the 365 days in the year to that sole purpose, without having the opportunity to review their organizations, resources and their processes, wasting in this manner alternatives, which could on their own yield interesting collection levels.

We know the pressing needs of the developing world, which require increased public resources. We have the certainty that if other factors, other than collection are not considered as management guidelines, and this option comes from the absence of a comprehensive self-control culture, hurt the image and institution's management, determine among others, the maintenance of high rates and narrow bases, and turns the tax administration into an obsolete organization that is poorly considered by taxpayers.

The Balanced Scorecard (BSC)

In modern organizations, the perspective of the results continues, but it shares it priority nature with others. That is the secret to the success of the tool known as the Balance Scorecard (BSC)², which architects, Robert Kaplan y David Norton, define it as:

*“A new performance measurement system, which offers a quick but complete vision of the company to the top management level. The BSC contains financial measures that explain results of past actions. And these financial measures are complemented with three sets of management measures related to customer satisfaction, internal processes and the capacity of the organization to learn and improve”.*³

The New Organizational Era

Modern history of companies can be divided in two phases: the industrial era and the information era.

² This expression has been translated into Spanish many ways, among these “Cuadro de Mando Integral (CMI)” and “Tarjeta de Valoración Equilibrada (TVE).” CIAT in a document quoted herein translates it as “Tabla de Puntaje Balanceado (TPB)”.

³ Kaplan, Robert and Norton, David. “The Balance Scorecard: measures that promote performance.” In “How to measure a company's performance.” Harvard Business Review. Ediciones Deusto, S.A. Bilbao, 1999, p. 135-136.

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In the industrial era, the improvement of company productivity had been followed traditionally from the models traced by the needs of the industry, and it is subject in first instance to the Performance indicator of Yield on Capital Used, with the belief that through it was possible to always direct the internal capital of the company towards its most productive use and, at the same time, oversee the efficiency with which operational divisions used physical and financial capital to create value for its shareholders.

During the past twenty years the information era rules, this transformed the competition paradigms of the industrial era. Companies no longer obtain their sustainable competitive advantages exclusively from the fast application of new technologies to physical assets and carrying out the excellent management of financial assets and liabilities.

The information era mostly influences service provider companies than manufacturing companies. In Kaplan and Norton's terms, information technologies created the seeds for the destruction of regulated service companies of the industrial era; and the ability of a company to mobilize and exploit its intangible or invisible assets has turned into something much more decisive to invest and manage their tangible and physical assets⁴.

Currently, it is clear that intangible assets allow an organization to:

- ✓ Develop with customers, relations that keep loyalty and attract others.
- ✓ Introduce innovative products and services desired by selected customer segments as targets.
- ✓ Produce, according to specifications, some high quality products and services, at low cost and with short term waiting times.
- ✓ Mobilize skills and motivate employees to continuously improve in their process, quality and response time capacities.
- ✓ Apply the technology, databases and information systems.

For tax administrations, we can list credibility as the most precious tangible asset, where transparency, trust shown by society, efficiency and its own image are highlighted, and all of these, undoubtedly, fundamentally determine its management of collections.

⁴ H. Itamin. "Mobilizing invisible assets". In Kaplan, Robert and Norton, David. The Balanced Scorecard. Harvard Business School Press. Ediciones Gestión 2000. Barcelona, 1997.

The state nature of the tax administrations prevents intangible assets as those mentioned from being considered all together in the same manner than it's analogous, when speaking about a private firm.

In the State, intangibles allow its administrators, improve their relations with individuals and bodies corporate, to reduce conflicts and enable non-compliers assume their taxation responsibilities; they also stimulate innovation in service, facilitating for example the task of preparing returns and pay obligations; help reduce transaction costs by saving taxpayers and users time and money; configure entities as proactive organizations, with better trained and committed officials in the compliance with their tasks, and make effortless the implementation of permanent advances which classify technological areas and information systems, which are indispensable today.

Public entities that comply functions such as those designated to tax and customs administrations have in these assets a value that is not a market asset and which usefulness rests in the latter, in the effect that their application has in the level of voluntary compliance with which taxpayers pay their taxes or abide to the customs norms that guard the state system.

Stated otherwise, the productivity of the Tax Administration significantly depends on the internal factors under its sphere of influence and other external factors, which at times affect the achievements that the governments in power endeavor.

Regarding the latter, it is clear for the tax administrations that the management of their intangibles, specially in the case of Latin American countries, where these entities every now and then are the target of phenomena that turn into judiciousness for the purposes of trying to raise their productivity and optimize their efficiency levels and into what the World Bank has labeled "The Capture of the State, understood as the capacity of interest groups to influence high state decision processes, through corrupted practices."

CIAT teaches very well the limitations to management in the Manual for Tax Administrations⁵, where it dedicates an entire chapter to planning and control issues and lists among others, the following:

- ✓ *"Little Strategic Independence:* Public administrations directly related to direct government administration often have little freedom to redefine targets, diversify main

⁵ Alink, Matthijs and van Kommer, Victor. "Manual for Tax Administrations". CIAT. 2000. Chapter 5.

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task lines, merge with other administrations, discontinue activities, etc., due to statutory and legal limitations;

- ✓ *Targets are too ambiguous:* the second greatest consequence of the great government dependency seems to be how to negotiate targets and strategies regarding a great variety of external pressures of economic, political or social nature;
- ✓ *Non-Profit:* The tax administration clearly performs its tasks with no intention of profiting. Consequently, activities are based in a principle that does not involve cost-benefits. Of course, the total budget of a tax administration may be divided into cost categories and linked to the different processes and functions.

It is even possible to assign this budget to the different results indicators (appeals, corrections, audits, inquiries, etc.)

Notwithstanding, these calculated cost positions are very theoretical, since society does not assign any real price to it. The need for the product or service is not considered. Without a true relation between price and production, the desired cost-benefit analysis will be doubtful;

- ✓ *Issues are influenced by politics:* Another important consequence of the dependency of the government is external interference in strategic decision-making processes, as a result of the inevitable direct or indirect interference, of lawmakers and politicians;
- ✓ *Short-term orientation:* There is a natural trend to limit government decisions to short and mid-term (mostly 1 to 2 years), considering certain prevailing values in the government's culture, pressures to achieve immediate results and the inevitable administrative discontinuity. The appointment of the Internal Revenue Service Commissionaire is for a five year term, to achieve the greatest independence from the four year presidential election cycle;

-
- ✓ *Prevalence of Bureaucracy:* Another distinctive characteristic of government activities is a behavior that values bureaucracy, characterized by the supremacy of the formal over the final product or service rendered, certain distancing between vision and results and hardly any use of creative behavior, reinforced with centralized and vertical structures and divided into departments.”

Having made the relevant distinctions vis-à-vis private companies, it is worthwhile to retake the model contained in the Balance Scorecard, to analyze its applicability to state organizations, which in our opinion it would be good to know and adopt their multiple focus.

In this methodology, organizations are invited to take into consideration the following perspectives when performing their planning and control tasks:

- ✓ The Customer, considered the object of attention.
- ✓ The Internal Organization, in charge of executing the tasks of the entity.
- ✓ Innovation and education activities, which guarantee the organization a proactive attitude when facing a changing world.
- ✓ Financial, referred to results.

The order in which these perspectives are listed is whimsical, and the list does not imply sequences or priorities, except maybe, the conviction that we have that customers, which in our case are taxpayers, withholding agents and customs users, are the elements that traditionally have been consigned to act as passive agent, and, on who fall endless number of obligations, and there is no requirement to offer them a minimum portion or participation in decision-making and administrative processes that directly affect them.

In this regard, in the Colombian case, we express the North American experience, where the Internal Revenue Service (IRS)⁶ defined in very simple terms its philosophy for the 21st Century:

“Taxpayers do not work for us, we work for them. In November 1997 a day in the month dedicated to solve problems was implemented; in January 1998 telephone service hours were extended to 16 hours a day. Nevertheless, most importantly, we know that a system that fails to attend taxpayers’ needs

⁶ IRS. “Reinventing Service at the IRS: Report of Customer Service Task Force”.

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*should simply be changed. The task force identified over 200 that may help to improve the manner in which the IRS serves taxpayers. These actions are based on the idea that taxpayers deserve from the IRS customer service that is comparable to the best service offered by the private sector. Customers deserve clearer forms, timely responses to their concerns, precise resolution to their problems and fair and polite treatment. We must work together with Congress to assure adequate finance of the initiatives that are necessary to advance towards these goals”.*⁷

The relation between the taxpayer and the Tax Administration is permanent and the perfection thereof is a fundamental objective to obtain results, understood as measurable results, from different perspectives, these are located within the expected range. Furthermore, that relation is a determining factor in the execution of productivity control.

Therefore the axis around which the goals of the Administrations should turn, is non other than its approach to its external customer par excellence, which in the Colombian case are taxpayers, withholding agents and customs' users, of course without forgetting the necessary relation of cooperation and accountability that it must maintain with other society groups, in addition to achieving among other aspects the adequate administration of human resources.

The foregoing serves as a response to the first question formulated in the guide that was the basis for this paper, and which refers to the methodology used to measure productivity. The theoretical framework is the same that supports the Balance Scorecard; regarding the measurement of Productivity, it seems reasonable to use the indicators that for some time are worked specifically in the Tax Administrations for Management Control, assigning to the same the wholeness that the multiple perspectives formalized by professors Kaplan and Norton imply.

The objective to act within the frameworks that the Balance ScoreCard indicates is triple:

- ✓ “Quantify the long-term results that it wishes to attain,
- ✓ Identify the mechanisms and provide the necessary resources to reach those results, and

⁷ Gore, Al and Robert E. Rubin. “Reinventing Service at the IRS.”

- ✓ Establish short-term goals for the financial and non financial indicators of the BSC.”⁸

The Colombian Tax Administration is building a tool to achieve these objectives, and it is explained hereinafter.

The Muisca Model

As from 2002, when the current administration began, the design of the aforementioned management model began as well, and, it is called *MUISCA* ⁹, that is: Single Revenue, Service and Automated Control Model, which is summarized as follows:

- ✓ **Model**: Represents the new way to manage.
- ✓ **Único (Single)**: Integrates people, areas, concepts, data and management.
- ✓ **Ingresos (Revenue)**: Responds for collection.
- ✓ **Service**: Facilitates compliance with duties and the exercise of rights.
- ✓ **Control**: Measures, prevents and adjusts behavior and management.
- ✓ **Automated**: Takes advantage of technology to enhance management.

Because of its reach, MUISCA results to be today a project of major importance of the Colombian State; and its success also depends on the consolidation of the Community State set forth by the government.

For the construction of this model we are working with the disinterested collaboration of the highly experienced and recognized authority in the issue, the State Agency of the Tax Administration of Spain, which history in the management of the tool dates back 24 years. This project will allow us to efficiently and intelligently take advantage of the information, as well as guaranteeing transparency in management.

For the construction of the new management model, we have covered three basic perspectives for the proper operation of any organization, processes, technology and organization and people (see graph). As mentioned above, the DIAN selected the adoption of the Balance Scorecard as a tool for the implementation of the strategy defined. In

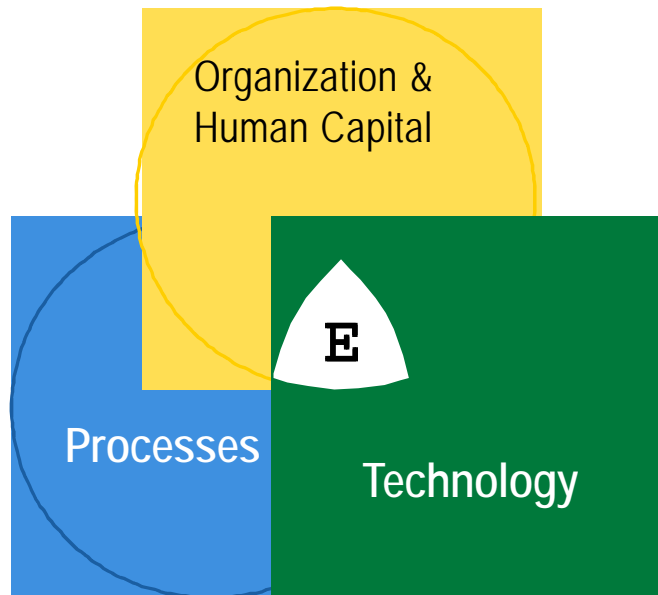
⁸ Kaplan and Norton, op. cit. p. 28.

⁹ *Muisca* is a word that evokes the aborigine people that inhabited the largest part of the center of Colombia in the Pre-Columbine era.

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in this regard, the strategy is the cohesive element of the reform and the developments were made in the three aspects listed and are briefly explained hereinafter.

Dimensions of the Reform at the DIAN



The Strategy

From the start of our administration at the DIAN we have the horizon clear. With the application of the Balance Scorecard, we have achieved to place this vision in a clear and concise manner. We have decided to focus our efforts in four large short, mid and long-term targets.

1. Achieve operational excellence.
2. Redirect the entity towards service.
3. Consolidate autonomy and legitimacy.
4. Contribute to the competitiveness of the country.

Strategic paths have been established for each target, and are developed in the traditional perspectives of the BSC, as mentioned above: learning and innovation, processes, customers and finances. We will not go in detail to describe the more than 30 that we have established for the organization to develop during the next years; however, we will explain some of the critical factors for the success of this strategy.

First, our purpose is to reach excellence in the operation of DIAN. It is not by chance that this is the first big target, no strategy will be successful if its operations do not include aspects such as the use of information, the rendering of automated and computer assisted services and simplify and speed-up transactions for citizens. These are the most basic ones, but at the same time the most fundamental part of any tax administration.

Second, our purpose is to make DIAN transition from being a programming agency, focused on short-term results to a planning and strategic agency that also has a vision of the future. This is especially reflected in the third and fourth path, where targets such as mobilization of communication of results on the use of public resources are intended to increase not only DIAN's transparency, but the State in general, and promote voluntary compliance through clear accountability.

In this same regard, a third critical factor is associated with the management of the image and the struggle against corruption inside the agency. This requires cultural, legal and technical changes that are already taking place and which have rendered positive results as the five-fold increase of disciplinary actions and dismissals in less than two years.

In the second target, we are focusing attention on service. The debate inside the tax administrations regarding the dilemma of service and control is passionate; we still have a long way to go before we have a clear and shared vision in this regard. However, we consider that it is the correct path. In order for this redirection to be done intelligently and not leaving aside the important task of control, it is necessary that the same be done by bearing in mind the fourth critical success factor: in-depth and detailed knowledge of our customers.

Only when tax administrations know their customers' business (whether these are taxpayers or customs users) can it generate the necessary trust conditions to provide good service and at the same time have identified and controlled the critical variables of the business associated with their risk or non-compliance behaviors.

Finally, the DIAN has recognized its strategic role in the State and takes into consideration that its actions can positively or negatively affect the economic aspects of the country. The stability in the rules of the game and the facilitation of foreign trade operations are only

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two of the main factors that are under our scope and which affect investment decisions, expansion projects or the generation of new exports and in general the country's competitiveness.

DIAN's Balance Scorecard

	A. Attain operational excellence	B. Redirect the Entity towards service.	C. Consolidate autonomy and legitimacy.	D. Contribute to the country's comp
Finances	Optimize the cost/benefit ratio	Improve Tax collection Coverage Improve integral Income per customer	Maximize DIAN Brand value Maximize income For access to coop. resources national and international	Reduce costs associated With compliance Obligations Reduce customer costs Associated with customs operations.
Client	Offer permanent assistance To customers Improve reactions Time before the client	Increase customer satisfaction levels	Don't incentivize evasion, avoidance, contraband and exchange violations Build, trust, credibility and improved image.	Advance Simplification & harmonization TA laws Provide stability Juridical security With judgement unity
Processes	Speed-up, simplify and make transactions more flexible Strengthen Intelligence & integral control. Assure The reliability transaccio processes	Orient, speed & make more flexible entity processes towards customer knowledge & by Delivering value Develop the net-work of outsourced services.	Modify, align and protect resources Against subjectiveness, corruption and Governmental values Strengthen presence of Tax authorities. Develop qualified strategic alliances Make administrative norms more flexible	Lead the Development of a National network On mass mgmt. & services Actively Contribute in making the strategy & normative Planning more agile.
Learning and innovation	Generate organizational capacity To use information	Establish vocational Service in the Career plan of officials Transform internal Culture towards Customer service Research and innovate in model & service means	Generate cultura de transparencia, compromiso y generacion de valor. Innovate with effective control tools.	Improve corporate intelligence process capacity Strengthen Strategic Skills of the entity.
Consolidate organizational capacity to achieve the mission and the vision				
Strengthen and implement a system to attract, train, develop, evaluate, withhold and continuously an properly compensate personnel				
Assure the generation, management and dissemination of knowledge required throughout the organization & its value chain				
Have reliable informata and technology supported, qualified and sustainable.				

The reason why we wish to briefly explain our strategy is because the entire management of the agency comes from the same. All efforts are being directed towards compliance with these actions and the Balance Scorecard has displayed in cascade from the directorate level up to the identification of the individual actions of each official instructed to comply with the same.

This is a good opportunity to answer question two of the guide to this paper, regarding the criteria used to disengage Productivity. This is the general purpose of the organization, and ideally it should grow constantly, the evaluation of whether if the latter is being achieved, will have to incorporate the possibility of performing the adjustments required by the influence of external factors on which the Tax Administration has little or no inheritance.

This new conception as an additional positive element, the need to permanently monitor all factors that determine productivity and in this manner have enough information to introduce correctives required when deterioration in the conditions are alerted, are the total sphere of influence of the Tax Administration.

In these circumstances, the main disengagement factor of productivity will be the one that divides the field of action into controllable or non-controllable factors; furthermore, the scenarios that guarantees comprehensive knowledge of the former and sustains thereon the resources and the attention that will be required to exploit them to a maximum, if the circumstances allow it.

MUISCA has shown us that it is urgent that we place more attention the management of officials, to enhance their personal and professional development for their own benefit and that of the organization. We must remember that:

“In last instance, the capacity to reach ambitious financial, customer and internal processes targets depends on the organization’s capacity to grow and learn.”¹⁰

In this regard the control of productivity is based on the same strategy and the measurement of performance, which we wish to perform with it as the only reference. To better understand how we have approached this challenge, we will attempt to briefly explain the three dimensions of the reform of the DIAN.

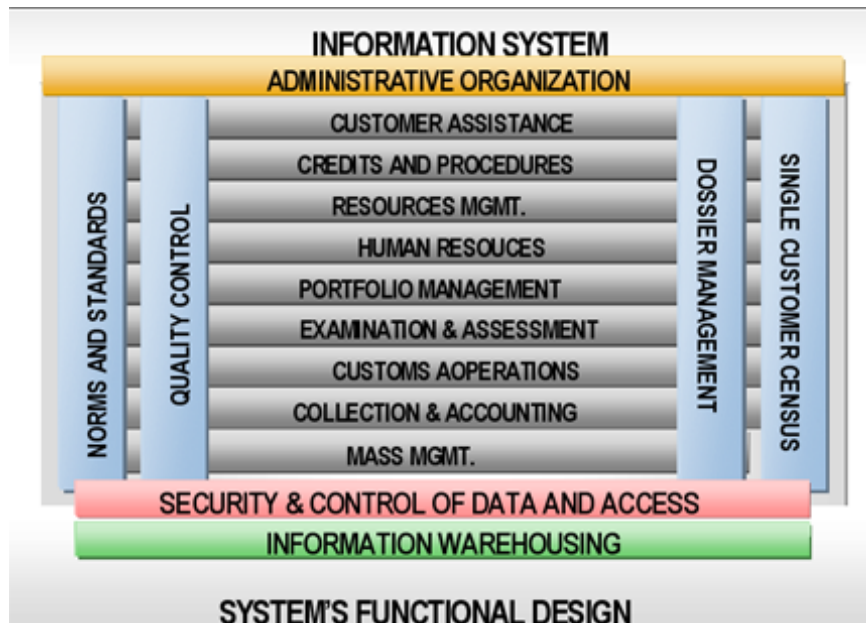
¹⁰ Kaplan and Norton, op. cit. p. 158.

Processes and Technologies

As a fundamental support to achieve the strategy, we have the re-design of processes and the implementation of a qualified and sustainable computer support at the entity. This is the last of the critical success factors that I did not mention before since it deserves a separate paragraph. Therefore, I shall explain in detail what we have been doing at the DIAN.

To obtain comprehensive information system that facilitates the management of all revenue and at the same time allows the management and the control of all the resources inherent to the administration (human, material and financial), by furthermore offering low cost maintenance with security guarantees, requires a great effort in its conceptual design and technical development. The following diagram is useful to picture the same.

Idea of the Comprehensive System



These elements summarize the philosophy on which MUISCA is conceived:

- ✓ Sound foundation that starts from the **functional design of the system**, which corresponds to the plan of the building and which is completed and approved by all involved, prior to beginning any development.
- ✓ **Information Warehousing**, gathered in a data model where all its entities are unique, standardized and completely documents.
- ✓ One and only **security and data control and access** system, which gives it the necessary guarantee and credibility.

The pillars on which the entire management is supported on are few and simple, but robust:

- ✓ **Norms and Standards** of all models, entities and procedures with simple and effective criteria.
- ✓ The **quality control** model is the only one authorized to record or modify data in the system and has effective control of validations and correspondence.
- ✓ **Dossier Management** acts as an administrative engine of the system and is concerned about the control and follow-up of all proceedings to be performed by all operational areas.
- ✓ **Single customer census**, is vital for the system and in addition to a single code per customer, it has the reliable location for notices, as well as its particular characteristics on type, size and fiscal vector.

The **single input and output** of the system is supported on normalization and quality control and it is achieved based on the standardization of all attributes and criteria that intervene in the same.

For each **operational process** of the Institution that is to be managed in the system, a subsystem that gathers the particular functional specifications is defined, since common tasks define the generality of the system.

The **administrative organization** has to protect the system by defining the legal reforms that are indispensable, by adopting the normative that is necessary, exercising institution autonomy at had and defining basic strategies required for the project.

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To obtain an operational comprehensive model, it is essential to start from a global design and later develop and implement it by parts. It is impossible that it will operate, if it is designed and developed in parts and integrated later.

Incentives to Productivity

Transformations being introduced into the Tax Administration is being mediated by the target of assuring the correct amount of taxes are collected. This financial target must be accompanied by other with the same rank, such as those referred to the service required by taxpayers, withholding agents and customs users, Administration official and the physical, technological, normative and managerial needs of the agency, all leading to raise the intangible assets that we mentioned above and that the same be reflected greater credibility and transparency levels when facing society.

The key to align the strategy with day-to-day operations and with the development of the organization and the projects established for their improvement is in the display of the same. First, we have established indicators and goals for each target of the Balance Scorecard, initially concentrating on the first two strategic paths, which cover the short and mid-term. These indicators and goals are displayed in cascade at different levels of the organization, until they reach each official, and at once turn into evaluation and follow-up parameters on the productivity thereof.

In this regard, we must also include in this paper the performance indicators chart incorporated by CIAT in its Manual for Tax Administrations for the year 2000, where it lists the critical success factors and remits executing and controlling responsibility to the interested parties.

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Critical Success Factor	Performance indicator	Stakeholder
Collection maximization.	<ul style="list-style-type: none"> ✓ Pay as you earn ✓ Cash flow pace 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget role)
Productivity	<ul style="list-style-type: none"> ✓ The relationship between resources and realized production 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget role)
Carefulness	<ul style="list-style-type: none"> ✓ Number of objections in relationship to the number of tax assessments ✓ Number of objections awarded to the taxpayer 	<ul style="list-style-type: none"> ✓ Taxpayers
Completeness	<ul style="list-style-type: none"> ✓ Object completeness: the manner in which tax collection are covered by contra-information ✓ Subject detection: number of new taxpayers detected as a result of activity by the tax authority ✓ Taxpayers who voluntary fulfill their fiscal obligations 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget and fiscal role)
Satisfaction/acceptance	<ul style="list-style-type: none"> ✓ Number of taxpayers that accepted and appreciated the way the tax authority performs his tasks 	<ul style="list-style-type: none"> ✓ Minister of Finance ✓ Taxpayers
Justice	<ul style="list-style-type: none"> ✓ Number of cases when justice is contested 	<ul style="list-style-type: none"> ✓ Taxpayers ✓ National Audit Committee
Confidentially	<ul style="list-style-type: none"> ✓ Number of cases where confidentially is contested 	<ul style="list-style-type: none"> ✓ Taxpayers ✓ Judicial authorities
Equity	<ul style="list-style-type: none"> ✓ Number of cases where equity is contested 	<ul style="list-style-type: none"> ✓ Taxpayers ✓ Judicial authorities
Prevention of fraud	<ul style="list-style-type: none"> ✓ Number of tax audits ✓ Number of fraud cases (submitted as well as suspected) ✓ Number of assessments with a Correction ✓ The average amount of correction 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget and fiscal role)
Implementability of tax laws and after a certain period the real costs	<ul style="list-style-type: none"> ✓ Calculation gap: difference between probable future costs 	<ul style="list-style-type: none"> ✓ Minister of Finance ✓ National Audit Committee
Product quality	<ul style="list-style-type: none"> ✓ Accepted corrections and the number of court decisions that are favorable for the tax authority 	<ul style="list-style-type: none"> ✓ Minister of Finance ✓ Taxpayers
Processing quality	<ul style="list-style-type: none"> ✓ The average throughput time of tax assessments and appeals ✓ Stocks: number of tax assessments to be made 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget role)
Expenditure costs	<ul style="list-style-type: none"> ✓ Relation between means (budget and staff) and tax revenues 	<ul style="list-style-type: none"> ✓ Minister of Finance (budget role)
Capable staff	<ul style="list-style-type: none"> ✓ Number of staff employees that performs above average ✓ Quality: test results 	<ul style="list-style-type: none"> ✓ Employees
Use of staff	<ul style="list-style-type: none"> ✓ Sickness percentage ✓ Mismatch ✓ Staff satisfaction quota 	<ul style="list-style-type: none"> ✓ Employees

TOPIC 3.2

From our point of view, this table constitutes a starting point for the Tax Administrations of the different countries and each one may adapt it to its own reality. In our case it has been very useful, when establishing the priorities of the objectives established for the short, that is for our first strategic path directed to operational excellence.

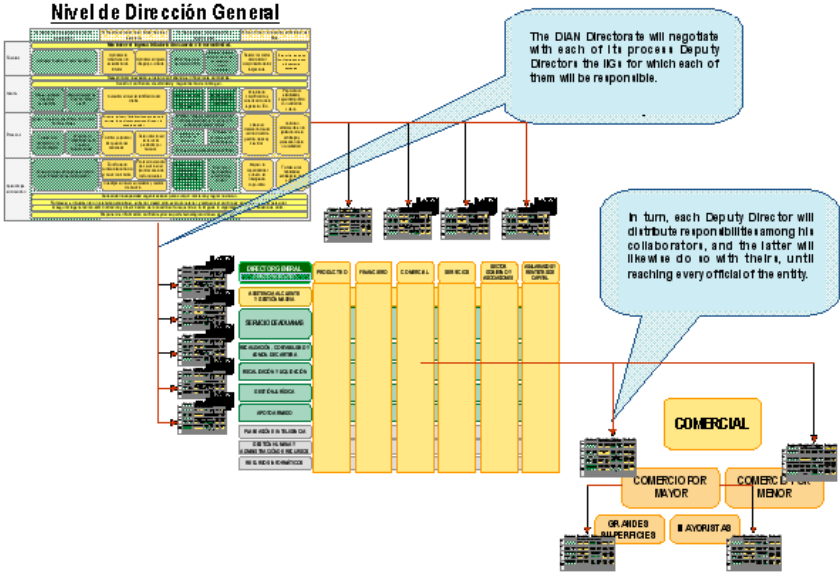
The fragmentation of abovementioned productivity implies the ensuring assignment of goals to the areas among which our mission and managerial responsibilities are stipulated. The current project binds goal compliance with remuneration goals so the current payment system, which solely depends on function performed will be replaced by one where a fixed factor is taken into consideration, and is related to the official's profile and another variable, which depends on individual group, and institutional performance in complying with the goal, simultaneously becoming in a stimulus for individual performance and team work.

In general terms, we can say that with the model proposed we are covering the different types of incentives on the productivity of their employees. First, the system to measure and evaluate performance. Second, we are stating a challenging strategy and objectives, which for many years we have heard in one way or other from our own officials, as the road to follow. Lastly, we would like to link performance and compensation, so that there are positive incentives on officials that stand out and the direct effects on those that do not.

In this regard, for the system, the development of processes and technology as previously mentioned are indispensable. One of the basic premises to be able to successfully implement the second phase, that is, the moment when we achieve to link results and remuneration, is to have reliable and objective information, in comparison to the subjectivity which usually accompanies individual performance evaluation processes, which are usually performed in an organization.

This is only one of the aspects where we can clearly appreciate integrity and interrelation of the dimensions of the reform we have proposed and that we have been implementing.

Deployment of the Strategy at Different Organizational Levels



The Taxes and National Customs Directorate of Colombia is building a modern and transparent entity, which provides better service to its customers, and has greater knowledge of itself and its collection sources, it has mechanisms which grant tolerable flexibility levels, even when the conditions of its customers require it and it has highly professionally, morally and ethically qualified human capital.

TO CONCLUDE

To conclude, we would like to briefly show the status of our project, and our intention is to show that from the perspective of the withholding agents and customs users achieve full knowledge of our entity, on how we do what we do and our customers. We are sure that this will represent substantial increases in the productivity of the organization as a whole.

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Prior to the development of information technology tools, all organization processes have been documented and redesigned. The level of advance is 70%, having concluded processes' redesign, function redefinition, the projection of legal and internal reforms and the new taxpayer identification systems. Process redesigned, technological development, training and procedures manuals are pending implementation.

In technological matters, which current level of advance is 25%, one of the great differences of the model is that it allows the modular implementation and in phases of subsystems. A good part of the advance corresponds to the definition of the "plans" to build the system. The architecture has already been defined, as well as the analysis, design and computer programming, equipment purchases, and the main central services. Phase 1 will conclude by the end of January 2005 and in January 2008 Phase 4 should conclude.

In regards to Organization and Human Capital, the advance is 15%, which corresponds to the definition of the most conceptual aspects, such as management, Human Management and Compensation systems. Among which pending activities we have administrative decentralization, institutional coverage, the implementation of a new internal organization, develop profiles and the organizational culture.

In conclusion, we are doing everything possible to make the DIAN a generating entity that renders the largest collection, focused on results through better service, greater control and the knowledge of the customers' characteristics, behavior and needs. This means that we should make it the best, transparent and modern entity with the best human capital.

I would like to thank you for your kind attention and I am at your complete disposition to detail this experience that has generated great expectations in my country.

Thank you.

Case study

TOPIC 3.3.

THE MANAGEMENT OF INTEGRITY

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(Cuba)

CONTENTS: Introduction.- The Cuban experience in the Management of Integrity.- Development.- Political Factors.- Socio-cultural Factors.- Organizational Factors.- Code of Ethics.- Conclusions.

SUMMARY

In conceptual terms, **Integrity** is a synonym of incorruptibility, perfect probity, impartiality, moral soundness, uprightness and some other meanings.

From the social standpoint, it is one of the most important values of the public sector, inasmuch as it constitutes, among other characteristics, the expression of fairness, impartiality, administrative transparency, probity, sense of belonging and professionalism in performance by the institutions and their officials. All of the foregoing is synthesized in the quality of the service rendered, to internal as well as external customers, and in the social perception and image which citizens develop with respect to the public entities.

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Corruption is the antagonistic counter-positioning of the individual's interest to the sacred principle of every public official of providing an honest service to society, which entails the inadequate use of the power granted for his particular benefit. Therefore, one of the main instruments identified to avoid it, is the work with the individual and the development of adequate orientation and management policies.

In the current scenario of modern society, there are ever more significant scandals dealing with corruption that involve politicians and governmental managers and officials, individuals, as well as public and private sector entities and organizations.

Such events affect the mutual trust, credibility and governance that should exist between states and their citizens and promote an increasing trend toward social indiscipline to the detriment of the established laws, rules and codes.

Because of the importance of the topic, Societies ever more feel the need to **Manage Integrity**, it being understood for the purposes of this paper, as the set of factors, attributes, standards, procedures and policies established by the States for a specific segment or the totality of elements that comprise the social relations system, with a view to promoting, managing and evaluating the optimum levels of integrity.

In our opinion, to manage integrity with a specific level of success, there are no prescriptions, formulas or procedures which, when applied, allow for obtaining results that may be comparable in different scenarios.

The foregoing is based on the fact that each country, depending on its specific characteristics, must analyze and establish the alternatives, standards or regulations whereby individuals in society may be aware of, comply and evaluate the policies that will be in force in that respect.

Nevertheless, it is possible that specific premises and factors generate an appropriate environment for regulating, exercising and Managing Integrity in any sphere of the same State and even among those having certain similarities.

In the public sector, one of the institutions where integrity of action is mainly required is precisely the Tax Administration since, because of the very essence of its mission, objectives, functions and scope of action, it is essential to count on sufficient credibility, respect and trust from the individuals who provide the revenues that will allow for complying with the goals and programs determined.

The Cuban experience in the Management of Integrity reflects the combination of a series of factors and willingness of the political-governmental power for preserving historical traditions, principles and values which, among other aspects, support governance, and social and citizen stability.

Cuban society like all the others that comprise the world in which we live, is not immunized against the manifestations of corruption and so many other scourges that have proliferated, as chronic epidemics within the framework of the new economic-social order, the prevailing political systems, technological development and the new challenges arising as a result of modernity.

In that sense, the State has adopted a series of measures, programs and instruments that allow for preventing, detecting and applying whatever measures may be necessary to protect its citizens from the harmful effects which corruption generates in the public sector.

Since 1999, the Tax Administration of Cuba as integrating element of the political-governmental system has taken steps for improving its organizational structure, including the Internal Control function as an essential element for guaranteeing the development of sound ethical-moral values, adequate levels of prevention, detection and severity vis-à-vis such manifestations and, above all, for preserving the respect, authority and social image it has acquired throughout the 10 years since it was established.

INTRODUCTION

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In that sense, the State has adopted a series of measures, programs and instruments that allow for preventing, detecting and applying whatever measures may be necessary to protect its citizens from the harmful effects which corruption generates in the public sector.

In spite of the economic limitations and blows which the Cuban society has had to withstand at the political level, the interest for minimizing every type of manifestation that may negatively affect the development of social programs and the country's political stability has not been disregarded.

Since 1999, the Tax Administration of Cuba as integrating element of the political-governmental system has taken steps for improving its organizational structure, including the Internal Control function as an essential element for guaranteeing the development of sound ethical-moral values, adequate levels of prevention, detection and severity vis-à-vis such manifestations and, above all, for preserving the respect, authority and social image it has acquired throughout the 10 years since it was established.

DEVELOPMENT

The Cuban experience in the Management of Integrity is based on the combination of a series of political, socio-cultural and organizational factors and its background dates back to the tradition of struggle of people, which, since the war of independence begun in 1868, defended such principles and values as nationality, self-determination, respect for the right of others and man's full freedom.

Political Factors:

- Willingness of the political power to promote and encourage the Management of Integrity.
- Enact and demand compliance with the Juridical Rules providing for violations, events and acts that may affect public integrity.
- Assist in the training of career officials in public administration institutions.
- Guarantee that the political-governmental leaders and officials comply with the ethical codes and Project the public image, probity and trust of society.
- Generate among the elements that comprise the State and at the social scale, an adequate environment of control, as well as of supervision and monitoring, as prophylactic or preventive measures.

Socio-cultural Factors:

- Promote in society abidance by and respect for legality.
- Educate the new generations in the defense and compliance with the principles and values that may guarantee adequate levels of equity, transparency and appropriate behaviors.
- Promote in society, voluntary compliance with the rules.
- Train social workers and introduce in the educational programs, subjects that may guarantee adequate civic and ethical training a well as general and integral culture.
- Promote specific, habits, customs and cultural traditions that may become part of the idiosyncrasy, in keeping with the strengthening of integrity.

Organizational Factors:

- Promote the regulation of working procedures and processes in the public sector that may guarantee the fundamental principles of Internal Control.
- Encourage the adoption of preventive measures and Risk management to reinforce integrity and the institutional image.
- Promote adequate levels of information and social communication as part of the transparency of administrative management and respect for the rights of citizens.

-
- Guarantee the operation of the Internal Control and Auditing System at all structural levels.
 - Account for organizational performance at all superior hierarchical levels.
 - Impartial, equitable and fair application of the rules to those who violate them.

As has been previously stated, although these factors cannot always be applied in all countries, there are others that have not been mentioned and which likewise facilitate Integrity.

Ethics, honesty, transparency, the personal example of good behavior and integrity in the performance of the political, governmental and administrative leaders at all levels have been a premise in the social model that has existed for over four decades.

In the nineties and following the radical changes that took place in the former socialist countries, Cuba was submerged in a profound crisis at the economic and social levels, that was overcome, to a great extent, as a result of the existing stability in political power under such difficult conditions, the trust and capability for resistance of the majority of the citizens, in defense of the principles and values that have prevailed throughout history and which are part of the idiosyncrasy and nationality.

The crisis period which came to be known in Cuba as Special Period, resulted in stronger manifestations and behaviors that contradicted the values and principles that were rooted in our Society and which have been promoted by the political-governmental leaders. At the same time, it was necessary to adopt economic and organizational measures that increased the risks of introducing practices, habits and forms of social projection that had never before been perceived in the country and which, to some extent, are associated to the following factors:

- Increase and opening to foreign investment.
- Development of Tourism as leading sector of the economy.
- Circulation of the U.S. dollar, in addition to the Cuban Peso.
- Opening of independent work as a more generalized employment option than that existing until that time.
- Reduction of the levels of supply for the consumption of goods and services and other regular benefits, at subsidized prices for the entire population, due to limitations of an economic nature
- A tax reform was approved, which involved all social actors, as a way of balancing the existing financial unbalance and which also included the rules for the application of the tax procedures.

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Likewise, some of the negative traits that were predominant in the international scenario, such as drug addiction, administrative and social corruption, trafficking of influence, loss of social values and banishment, among others, became new and potential risks for our society.

In that sense, the political-administrative directors promoted the adoption of preventive, organizational, economic, juridical and other actions related to the strengthening of values, ethics and social discipline.

Any other society would have limited itself to prioritize the economic-financial measures that would allow for controlling and reverting the crises. Nevertheless, ours covered in addition to these, the ones that may protect the low revenue social sectors and the defense of values and principles that are part of our nationality.

To mention only a few and illustrate the scope and objectives on which they were based, these are:

- Strengthening of the role of the Social Workers and their direct relationship with the community, in urban as well as rural areas.
- Priority attention to citizen complaints, problems and proposals, guaranteeing their investigation and response in reasonable time frames.
- Strengthening of the bodies that guarantee internal order and social discipline.
- Restructuring of governmental organizations according to flatter organizational structures and reinforcement of the methodological work and counseling at the basic levels.
- Improvement of the entrepreneurial sector, based on economic efficiency, quality, substitution of imports, increase of exportable funds, integral human resources management, measuring performance and granting of salary stimuli and remuneration for the results achieved in compliance with the main goals and objectives.
- Promulgation of the Code of Ethics for the leaders of the Cuban State.
- Creation of the Auditing and Control Ministry to assume functions in exercising controls and those related to preventive work to minimize manifestations of illegality, social indiscipline and administrative corruption in the public sector entities.
- Restructuring of the Internal Control System in state entities, in accordance with the principles considered in the COSO Report.
- Reinforcement of the Tax System and the Banking Sector, as mechanisms regulating economic, accounting and financial relationships between social actors and individuals.

- Development of new methods to generate greater integrity in culture, education, science and health assistance services.
- Strengthen participative, strategic management, according to values and competence, at all levels of the public sector.
- Modification of the Penal Code, by clearly classifying violations against Public Finance and those related to drug addiction, corruption and other manifestations that affect social discipline, ethical-moral values and national security.

In the Cuban economic and social, one of the main premises identified to guarantee its continuity and credibility is precisely, the integrity of those who direct, at any hierarchical and structural level of the governmental apparatus and public sector entities.

The foregoing is based on the fact that it is difficult to demand society to comply with specific codes of conduct, social discipline and juridical regulations, if those who assume managerial responsibilities are not capable of preaching with their own example, before those who are part of their sphere of professional performance and before the community.

In that sense, to Manage Integrity in the sphere of society and the entities that integrate the public sector, the State has given priority to the ethical behavior of the directors, to subsequently be able to demand ethical and integral behavior from the rest of the officials intervening in the governmental, political and social systems.

CODE OF ETHICS

The Code of Ethics, for public sector directors, at all levels, was promulgated in July 1996. It includes 27 rules that govern their ethical behavior and in addition guarantees, among other things:

- That the directors carry out their functions with high moral values, profound social sensitivity and a clear sense of duty
- Preserve ethics as an essential element of policy in Cuba and as a guide in the government's management process.
- Use the authority and power granted by society and for which they must respond each day, as a commitment of honor for contributing to the collective work and to social development in the complex and adverse conditions that integrate the current scenario of the Cuban people.
- That those who represent the people and carry out state and governmental functions at the different levels, have the duty to act

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in keeping with the principles determined by the political-social system, as the only way to legitimize them.

The Code of Ethics of the directors of the Cuban State, is not a mere list of ethical rules, but it rather formulates values, principles; it is based on the series of actions required by the social model because of its popular nature, it is a cult to the dignity and sensitivity of man and the historical traditions of the struggle for national independence.

As José Martí, the apostle and national hero said: **“Every man is obliged to honor his Country, through his private as well as public conduct”**.

The rules comprising the aforementioned Code are the following:

1. Be sincere, never conceal or distort the truth. Fight against lie, deceit, demagoguery and fraud.
2. Develop the sense of shame, honor and dignity.
3. Promote and comply with discipline, respect and loyalty to the Constitution and other laws.
4. Educate and practice demand and respect toward oneself and others.
5. Strictly comply with commitments and the word given.
6. Combat apathy, indolence, pessimism, hypercriticism and defeatism.
7. Be honest and consequently practice criticism and self-criticism.
8. Consider as harmful attitude, the spirit of justification, inaction vis-à-vis difficulties, errors and the absence of initiative and creativity.
9. Know how to rectify, seeking new solutions to old problems.
10. Relate oneself to the workers and the people, showing respect and trust in them and sensitivity to perceive their feelings, needs and opinions.
11. Base the friendship relationships on the coincidence of principles and morality.
12. Correctly manage the resources of the state.
13. Use the privileges and powers inherent in the position, as well as the means and resources conferred only for the performance requirements.
14. Observe in our work and social activity, a life style that may afford you the respect and trust of others.
15. Fully devote yourself with love to complying with the responsibility entrusted to you.
16. Corruption denigrates who incurs therein as well as he who tolerates it.

17. The state administration does not confer any right or preference over those who do not fulfill those functions.
18. Share with the subordinates the difficulties and great efforts, contributing and demanding all the necessary effort and dedication.
19. Make decisions, based on collective reasoning and personal capability of the director.
20. Decide, within the corresponding powers, without unnecessarily awaiting orientations from the superior levels and without fear for the consequences of an eventual personal error.
21. Develop willingness to dialogue and for effective communication with the collectivity.
22. Be discrete and facilitate public information.
23. Promote the selection of leaders based on merit and capability.
24. Show concern for the problems of fellow workers.
25. Consider professional competency, moral integrity and the best right of the worker, based on the aptitude and real proven capability.
26. Assume the authority granted as an honor and commitment, never as a personal advantage.
27. Assume and conscientiously contribute through their functions, to defend, preserve and be faithful to the principles that establish the sense of patriotism and nationality.

Since its promulgation and up to this date, there have been numerous exercises, debates and analyses with respect to the contents of the aforementioned Code, not only with the managers, but also the workers for the purpose of fundamentally ensuring that:

- The precepts and principles reflected in the Code of Ethics may be assimilated as a culture, as a way of acting inherent in the leaders and their respective working groups.
- Each working group may identify its values that must be shared and assumed by all.
- In the continuous exercise for relating behaviors to values, the positive ones being accepted while the negative ones are rejected.

The Code of Ethics is additionally an important instrument in the evaluation of real performance of the leaders made at the end of each year, which is based on periodic evaluations as well as the opinions that are previously requested from the workers and other leaders of upper hierarchical levels linked to their sphere of action.

As a sign of administrative transparency, following acceptance by the official submitted to evaluation of the contents, aspects to be overcome

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and recommendations for improving their integral performance, the employees that are directly under their sphere of competence are provided a summary of the fundamental aspects and opinions that were contributed by them.

For the leaders of the Cuban state, the Code of Ethics is undoubtedly one of the elements of greater relevance of those who constitute the basis of the Management of Integrity for the public sector and on which basis the political and governmental entities, bodies and organizations work for generating an adequate environment of control, with a view to promoting among leaders and employees, institutional values, a sense of belonging, abidance by the rules and promoting a transparent, ethical and professional action that may count on society's recognition.

Additionally, the Cuban state has oriented and promoted the establishment at all levels and entities comprising the public sector, of **Prevention Plans** which, based on the risks that have been identified by the employees themselves, may prevent and combat lack of discipline, illegalities and manifestations of corruption.

The aforementioned Prevention Plans must be analyzed at the Board of Directors or Managerial Councils, by identifying the causes and conditions that have originated the inadequate behaviors and by proposing within said framework and as supreme body for exercising participative management, the corrective measures that may be necessary, including in the cases of corruption, in addition to administrative sanctions, denunciation before the corresponding police and judicial bodies.

The cases of greater significance are stated and they are generalized at the different institutional levels. As additional preventive measure, employees are informed about the level of compliance, main deficiencies and other inadequate behaviors that have taken place within a specific period.

The same procedure is used for control actions, internal or external, which as a result of audits, unexpected verifications and others may have been evaluated as deficient or poor, in order that the workers may be aware as to where the main weaknesses or deficiencies are found, or acts of indiscipline, illegality or corruption may have been incurred.

Periodically, the Ministry of Audit and Control, based on the information provided by the public sector entities and organizations report before the top level governmental and political authority, the results obtained

in the execution of the Prevention Plan, as well as the most significant cases of indiscipline, illegalities and acts of corruption that have taken place.

As a result of the aforementioned process, the different levels of the governmental, political instances and public entities are provided the cases of greatest significance, the causes and conditions that promoted such events and the corrective measures adopted, with a view to increasing prevention and promoting collective reflections.

Another strategy designed by the Cuban state to promote administrative Management of Integrity has been the promulgation of **Resolution No. 297-2003 of the Ministry of Finances and Prices**, in order to implement the concepts that are reflected in the COSO Report, for all entities comprising the public sector, including those that correspond to the entrepreneurial sector.

In that sense, the resolution modifies the concept of Internal Control which in Cuba was basically linked to the control of accounting, finances and material resources, by generalizing it for all areas and attributing maximum responsibility to the directors of the entities, defines the components that integrate the Internal Control System, issues the general rules for each of them and guides the elaboration of diagnoses and a time schedule for each public sectorial entity, to guarantee its implementation.

The aforementioned Resolution considers the following as components of Internal Control in their new approaches:

- Control Environment
- Risk administration and evaluation
- Control Activities
- Information and Communication
- Supervision and Monitoring

Control Environment: It is the fundamental support of the System, and constitutes the conscientious expression of the interest which the leaders and workers attribute to Internal Control, to measure results and the levels of compliance.

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It fundamentally consists of the following elements:

- Management methods and style
- Organizational structure, design and functions of the job and staff selection and capturing policy.
- Integrity, ethical and institutional values, levels of compliance and assignment of authority and responsibility.
- Goals, Objectives, performance indicators, policies, juridical-administrative regulations and rules.

Risk Management and Evaluation: Comprises the identification of internal and external risks that may appear during the process of achievement of the goals and objectives, as well as their evaluation and management to prevent and minimize their occurrence. It is recommended that priority be given to the following aspects:

- Internal and external Risk Management System
- Estimation and Valuation of the cost of occurrence of the risks
- Determination of specific control objectives and procedures for monitoring and minimization
- Information and communication system to detect changes
- Anticipated evaluation of risks, measurement of impacts, frequency of occurrence and capacity for eliminating or minimizing them.

Control Activities: Procedures that allow for determining whether management policies are conveniently executed and in correspondence with the estimation of risks. They measure the management of the working processes and fundamentally consist of the following elements:

- Delimitation of tasks and responsibilities
- Coordination between areas
- Support and documentation of actions
- Definition of levels of authorization
- Timely and adequate registry of transactions and facts
- Limitation of access to resources, assets and records
- Turnover of key staff
- Control of information system
- Control of information technology
- Performance indicators
- Operation and performance of the Internal Auditing Unit with professional independence.
- Evaluation of execution of control activities.

Information and Communication: The pertinent information should be captured, processed and transmitted in such a way that it may timely reach the addressees in order to measure the levels of individual responsibility. In communication, it is also important to timely know the goals, the management that should be undertaken and the controls to be implemented as well as the establishment of effective information and communication channels. The main components are:

- Information and responsibility
- Contents and flow of information
- Quality of the information
- Flexibility to adapt oneself to change
- Security and protection of the information
- Communication of the values and strategies of the organization
- Surveys held among internal and external staff
- Communication channels

Supervision and Monitoring: It is the process that evaluates the quality of internal control in time, and allows for determining whether it operates adequately or requires modifications. The main elements comprising it are:

- Internal Auditing Unit
- Internal Control Committee
- Evaluation and Effectiveness of the Internal Control System
- Audits and actions to evaluate results and the management of processes and functions
- Treatment of deficiencies detected and adoption of corrective, disciplinary or judicial measures
- Feedback and evaluation of supervision and monitoring

Corruption is a complex social phenomenon that may corrode the Tax Administrations internally, due to multiple factors, some of the most important being:

1. The general economic situation.
2. The level of social awareness.
3. The complexity of the Tax System.
4. An inadequate organizational culture.
5. Deficiencies in the conception and operation of the Control Systems.
6. Weakness of the Sanctioning Systems.
7. Inadequate stimulation and remuneration of labor.

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In Cuba, Administrative Corruption is understood to be, the action contrary to the legal rules and ethics by the State and Government leaders or officials, in exercising their job or function, characterized by a loss of moral values that is incompatible with the principles of Cuban society, which is incurred when using the powers and material goods that should satisfy the public or social interest for one's personal interest; intended to obtain material benefits or advantages of any kind for oneself or for third parties, and which is based on deceit, bribery, unfairness and administrative excesses.

As has been stated, in order to combat this vice, the Cuban State decided to adopt a series of measures for strengthening the struggle against corruption and illegalities, which must be established throughout the country, that fundamentally deal with the collective analysis of compliance with the plans established for such purpose, dissemination of the events that have taken place and analysis of the causes and conditions originating it, as well as the measures adopted against the violations, updating of the code of ethics and disciplinary regulations of each body, creation of a culture of control and promotion of institutional values, among others.

On this basis, **the Cuban Tax Administration** developed its internal measures plans which respond to these indications, considering that, because of their characteristics, tax procedures allow an important space for this calamity, due to the direct contact maintained by the officials with the taxpayers and the making of decisions with respect to the level of compliance with their formal duties and obligations. For this reason, the behavior of the officials in their interaction with the taxpayer is a potential and high risk factor.

On the other hand, the tax category, per se, is of a coercive nature and represents a monetary disbursement which does not generate any visible or direct benefit for the taxpayer and given the absence of an adequate taxpaying culture, it promotes attempts at bribery, thus forcing the Tax Administrations to reinforce their protection and control systems.

Bearing these factors in mind, the National Tax Administration Office (ONAT), developed a plan to fight corruption, after identifying the risk points of the most vulnerable working processes, on which it decided to act immediately by establishing the corresponding actions involving control, training, organization, documentation of technological processes and reinforcement of the ethical and institutional values, thus

endeavoring to promote preventive and prophylactic work that may contribute to minimize corruption and vices that are incompatible with the tax official.

A Committee for Facing Illegalities and Corruption in all areas was established, with a view to undertaking the corresponding analyses of the application of the plans and compliance with the measures adopted, which reinforce the role of control and prevention that should characterize the performance of our activity.

Through the Control system, cases have been detected, dealing with inadequate behavior and corruption that have involved directors and officials, who have been separated from their jobs, the organization and, depending on the seriousness of the situation have been subjected to the pertinent judicial bodies.

On a quarterly basis, a review is made of cases of inadequate behaviors, acts of corruption, if any, as well as the main deficiencies detected in the different control actions; causes and conditions are analyzed and the corresponding corrective measures are adopted, with a view to minimizing their occurrence, all of which is part of the strategy determined in the Prevention Plan.

Starting in 1999, ONAT began a series of actions to establish the Internal Control function in the organization. In 2000, the Internal Control Directorate was established, as an area within the Central Office that would generate the documentary, normative and procedural base for generalizing its functions throughout the other levels.

Some of the tasks undertaken were:

- The preparation and application of Guides or Programs for the execution of Integral Audits and Controls at the provincial and municipal offices.
- The design and presentation for approval by the expanded Management Council of the **Internal Control Policy**, which was promulgated on June 27, 2002.
- The Internal Control System is structured as an essential element for the internal operation of the organization.
- The Internal Control function is extended to the provincial level, on counting with technical staff in each of the provinces, as well as collaborators that supported a series of control actions such as:

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- Integral Controls at the inferior levels (provinces and municipalities)
- Unexpected verifications.
- Working visits to the different areas and functions
- Internal audits
- Investigation of complaints, anonymous letters and inappropriate behavior of directors and officials (since 1999)
- Recording and monitoring of extraordinary events originating in the different structural levels.
- Application of Audit Guides and Programs, Integral Controls, unexpected controls, among other control activities.
- Acts of corruption, inappropriate behaviors and extraordinary events have been modulated and copied since 1999, to increase prevention and reduce risks.
- Technical Working Procedures began to be elaborated in 2002 and in 2003, on putting in effect the first part of the Technical Standards and Procedures Manual of the basic or substantive functions (Collection, Examination, Taxpayer Assistance, Computerization and Legal) Management Audits were initiated with respect to said procedures.
- In 2002, each area of the different structural levels identified the inherent **risks** and on that basis, after being subjected to the approval of the Management Council, the **Tests and Reviews Manual** was developed. This important document is a means for promoting self-control, inasmuch as the tests that have been identified are performed by staff from the same area or from others and their compliance is periodically controlled.
- A System of Corporate Indicators was institutionalized. It quantitative and qualitatively measures the performance of the different areas, levels of effectiveness, quality and yield.
- Additionally, individual Performance Evaluation was also determined in order to guarantee a monthly and personalized measurement, promotions, the granting of stimulation systems and greater control.
- The Organization and Quality Manuals were developed, the latter being based on the ISO-9001 International Standards.
- The organization's Communication and Information System was set up to improve the level of satisfaction of its members, improve the flow of information and achieve greater organization and productivity.
- A Risk Management System was developed, to be applied to all levels, areas, processes and jobs.

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- There are collective management bodies that provide technical counseling to the Management Councils, with the participation of technicians with vast experience, thus increasing participative management.
 - The Internal Control Committees and Prevention Commissions have been organized and are in operation at all structural levels.
 - Control actions are planned and monitored and the results are analyzed by the immediate superior levels and national directorates to adopt general corrective measures in the corresponding cases.
 - There are disciplinary and ethical codes for the members of the organization.
 - A collective and individual emulation system is in operation to measure results and facilitate stimulation in both directions.
 - Physical security and protection, contingency plans and computerized security are regulated.
 - Strategic guidelines are prepared for five years. They constitute the basis of management by objectives and by values that every year are developed on the basis of the proposals originating at the municipal and provincial levels, up to the negotiation of individual objectives between the employees and the administration, as another way of participative management and expression of the sense of belonging.
 - Man to man work is promoted as well as assistance to the problems of the members, by the collective management bodies.
 - The main problems of a technical-organizational nature are identified and to promote their solution and the sense of belonging, Tax Workshops are convened every year with the participation of managers and employees, with prizes being awarded to the best works in accordance with their practical usefulness and generalization.
 - The first Master of Tax Administration program was concluded, with the participation of directors from the three structural levels, and the second one was begun with specialists of greater experience, years of service and better performance.
 - As part of the social recognition, the Central Office has turned out to be National Vanguard for four consecutive years, a condition that is held by several provincial and municipal offices.

CONCLUSIONS

In sum, the Management of Integrity in Cuba is fundamentally based on three strategic guidelines:

1. The Code of Ethics of the leaders of the Cuban State.
2. The elaboration and control of compliance with the Prevention Plans.
3. The promulgation and implementation of Resolution No. 297-2003, on the new concepts of Internal Control, its components and rules.

The transparency and integrity of action of the Tax Administration are essential for legitimizing the tax system in current societies. Therefore, it is a critical success factor to achieve its adequate ethical performance. To achieve this objective, it is recommended that work be carried out in the following areas:

- The application of a Tax Administration Model focused on impartial and secure service for the taxpayer.
- Continuous ethical training, the promotion of values and institutional identity, strengthening of internal life collectively, work with the individual, maintenance of leadership, based on the genuine example of probity and transparency of the managers and development of integral preventive actions, constitute the essential ingredients of any program for fighting corruption that may hope to be successful within medium and long term.
- It is advisable to count on an administrative career system to guarantee sound training, including ethical values in the tax technicians and specialists, in addition to having systems that may allow for measuring and evaluating individual and collective performance, develop management by values systems, as a way to guarantee abidance by the codes of ethics, discipline, as well as the specific regime of incompatibilities for the tax worker and to establish an effective system of internal communication.
- Establish an integral internal control system that may guarantee the supervision of administrative actions, as well as design, apply, evaluate and provide feedback to a special program for combating corruption and illegalities within the Tax Administration. In that sense, one should:
 - Promote the establishment of internal regulations for the working processes and their continuous improvement.

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- Specify the interrelationships or points of contact between areas and individuals.
 - Identify the product or service that is being transferred, its conditions, the requirements for delivery, duly delimited responsibilities.
 - Know the external users, the different services that are provided, the duties and rights that may lead to satisfaction, certainty and fairness of the actions that may strengthen compliance with voluntary payment and tax discipline.
 - That all acts related to the Tax Administration may have the required formality, be adapted to the law and have the necessary transparency so that they may be explained and audited from the beginning up to their conclusion.
 - Promote self-control mechanisms Promote self-control mechanisms to be applied by the main executors related to the different working processes, as well as by the respective superior levels, having to specify the frequency and modalities of actions in the supervision function.
 - Apply a system of quality standards and parameters to validate the internal and external service, as well as promote their continuous improvement.
 - Identify the vulnerable points, risks and work toward an adequate management of the latter.
- For the aforementioned plan against corruption, after having identified the points of risks and more vulnerable working processes, one must plan and execute control actions through systematic reviews, thus managing to promote the preventive and prophylactic work that may contribute to minimize the manifestations of corruption and vices incompatible with the tax official and gradually incorporate all areas and operations.
 - One should evaluate the convenience of establishing within the institutional sphere, a special working group for Facing Illegalities and Corruption, with a view to making the corresponding analyses of the behavior of the plans and compliance with the measures adopted, which reinforce the role of control and prevention that should characterize the performance of the tax activity.
 - Vis-à-vis positive cases of corruption detected, it is necessary to act with rigor and guarantee the adequate dissemination of the events and measures taken. In that sense, one should count on adequate sanctioning instruments and mechanisms. Nevertheless,

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it is also important to determine the causes that motivated such attitudes and which have been the gaps in the prevention and control mechanisms that did not avoid or allow for timely detecting the irregularities in order to minimize the risk of occurrence of future cases of corruption.

- The systematic rendering of accounts before the structures of the State, government and civil society, are the basis for guaranteeing an environment of transparency, which is contrary to dishonest, bureaucratic and elitist behaviors.
- The social control system should consist of the control of the taxpayer, the parliamentarian, governmental, institutional and other organizations of civil society.
- The improvement of the internal operation of the tax administration as preventive strategy in the struggle against corruption and illegal practice.

In our opinion, there are three aspects that will contribute to the success of any project for developing a sound ethical infrastructure:

- The phenomenon of corruption has an important external and social component in the Tax Administration. For example, a high tax burden or inequitable distribution thereof may stimulate taxpayers to evade as well as the proliferation of attempts to corrupt the administration in order to reduce the tax pressure, for which reason the establishment of fair and simple fiscal systems is an important factor.
- The existence of a social environment that will tolerate this type of phenomenon negatively affects the internal efforts undertaken. In such sense, if there is no strong and sustained political will at the social level and an acceptable level of development of awareness of society, the success of the programs for fighting corruption and illegalities within the tax administrations is at risk.
- The program for fighting corruption and illegalities cannot be seen as a fad or episode, but rather it should be a structural element in the internal operation of the tax administrations and should represent the true will of the political-governmental system so that it may then be assumed as a necessary interest of society.

An example of the functionality of the Internal Control System and of the Auditing Unit of the Tax Administration, as well as the improvement of behavior, are the statistical results shown below:

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No.	TYPE OF ACTION	U.M. Unit					
		2000	2001	2001	2003	I-S-2003	I-S-2004
01	Internal Audits	24	30	39	95	20	65
02	Unexpected verifications	111	313	299	407	181	99
03	Integral Controls	116	177	182	117	67	33
04	Methodological Views	183	389	1079	1733	752	1593
	Tests and Reviews (Self-control)	-	-	-	20838	7435	15612
	Subtotal of Actions	434	909	1599	23190	8455	17398
06	Inadequate behaviors investigated	60	49	32	47	22	20
07	Positive inadequate behaviors	41	31	32	27	17	12
08	Cases of Corruption	-	8	2	5	3	1
	Total Employees	2765	2828	2815	2805	2826	2833

Additionally in 2004, Institutional Management or Corporate Performance Indicators were established within the sphere of the organization, which were based on the Indicators that were recommended by CIAT. The Internal Auditing function adopted the following:

Period: I semester-2004

No.	Name of Indicator	Value of Numerator	Value of denominator	% Indicator
01	Behavior of Employees	2823	2835	99.6
02	Proportion of Management Audits with respect to Total Audits	41	65	63.1
03	Compliance with the Control Actions Plan	15612	13673	114.2
04	Coverage of areas	1103	1239	89.0

Indicator on employee behavior: The calculation formula is:

$$\frac{(\text{Total employees}) - (\text{number of employees with complaints for inadequate behavior and found to be true})}{(\text{Total employees})} \times 100$$

Purpose of the Indicator: Measure the proportion represented by the workers that have been investigated due to claims filed against them by taxpayers or by other means and that in addition that the investigations may have turned out to be totally or partially true, with respect to the total number of workers existing in the entire organization, for purposes of measuring the behavior of the employees.

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Comments: As seen in the previous chart, behavior problems in relation to the above have been experienced by only 0.4% of the employees which indicates that behavior, in general, is ADEQUATE.

Indicator on Proportion of Management Audits carried out with respect to Total Audits: The calculation formula is:

$$\frac{(\text{Number of Internal Management Audits carried out})}{(\text{Total Internal Audits carried out})} \times 100$$

Purpose of the Indicator: Promote Management Audits, especially with respect to working processes, to measure the level of knowledge and application of the Standards and Technical Procedures Manuals, by relating them to the total Audits carried out.

Comments: At the closing of the first semester of the current year, it is evidenced that of the total Audits, 67.2% have been to measure management.

Indicator on Compliance with the Control Actions Plan: The calculation formula is:

$$\frac{(\text{Number of Actions carried out})}{(\text{Number of Actions scheduled})} \times 100$$

Objective of the Indicator: Endeavors to measure compliance with the planning of control actions related to Self-control that is exercised through the application of the Tests and Reviews Manual in each of the areas and in all levels of the organization.

Comments: Execution has been exceeded by 14% of planned actions due to the flexibility which the Directors at the provincial and municipal levels have for adding other actions that may be of their interest, even though they may not have been anticipated for the period analyzed, or for repeating others to minimize risks.

Indicator on Internal Auditing Coverage: The calculation formula is:

$$\frac{(\text{Number of controlled areas})}{(\text{Total areas})} \times 100$$

Purpose of the Indicator: Measure the scope of Internal Auditing with respect to the total existing areas at the municipal, provincial and central levels in order to determine how many areas have been examined, with at least one action during the period being analyzed. Considers all types of actions (audits, unexpected verifications, investigations, integral controls, working visits), except those related to Self-control, since this is measured through the previous indicator.

Comments: As shown in the statistics, of the total areas existing at all levels of the organization, at least one control action has been carried out during the semester at 89%, which shows an acceptable coverage, by adding that with the Tests and Reviews Manual (Self-control) coverage is given to all the areas.

Case study

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**DUTCH TAX AND CUSTOMS ADMINISTRATION
POLICY ON INTEGRITY**

Will de Haan

Member of the Board

Dutch Tax and Customs Administration

Ministry of Finance

(The Netherlands)

CONTENTS: History.- Changes in Society: Dismantling the Borders.- Integrity on the Political Agenda.- Concern for integrity: here to stay.- Changes in moral standards and values.- New questions on the agenda.- Democratising moral authority.- Dotted the 'i's.- The Importance of Integrity: Four-pronged Approach.- Line 1: Permanent attention.- Line 2: Stimulating personal responsibility.- Line 3: rules for integrity.- Line 4: Enforcement.- The Basic Values.- Credibility.- Responsibility.- Due care.- The purpose of basic values.- Basic values in practice.- ARDI [ARGI].- Training.- Integrity counsellors.- Communication.- Monitoring.- Evaluation Framework.- Evaluation by colleagues .- Evaluation by managers.- Standards for Integrity.- Criterion for appointing staff.- Criterion for integrity counsellor.- Three Evaluation Methods.- Internal control.- Certification inspection.- Test team.- Reporting and registering incidents.- What constitutes an unusual incident?.- Registration. - The Boomerang. - Final Word.

HISTORY

Up until the early nineteen-nineties, monitoring the integrity of Government officials was not a subject of great political or social concern. Obviously it was important to carry out internal controls and avoid putting temptation in people's way so various organisational measures were introduced, such as the segregation of functions. And of course all kinds of codes of conduct for Government officials were devised, which if violated, were followed by repressive measures. Measures that were on the whole enough of a deterrent to persuade the relatively well-behaved Dutch Government officials to act with propriety. On the other hand, Government officials had a lot to lose in terms of salary, career prospects and social status.

Another important factor was that for many years, a fairly homogenous religious and ethnic culture had prevailed within Dutch society, and opinions regarding what was and what was not acceptable were firmly embedded into society as a whole. Generally speaking, the Dutch expected their fellow-citizens, and particularly their Government officials, to lead a modest lifestyle. Lavish habits gave rise to questions – thanks to the strong social control in Dutch society. In short, for a long time integrity was not a subject for concern in the Netherlands.

CHANGES IN SOCIETY: DISMANTLING THE BORDERS

The last decade of the twentieth century heralded the beginning of a gradual change in the traditional moral standards and values in Dutch society. The process started slowly, but soon picked up speed. The boundaries of moral correctness gradually started to erode. Religion became less important as a binding element and as the basis for certain social organisations. Emancipation, the tendency to individualisation and the representation of the interests of social sub-groups were placed at the forefront. Computerisation and technology led to an increase in social risks. Citizens and businesses started to focus more on the international markets, which led to reduced commitment to the national state. In many respects, this dismantling of the borders meant that opinions on the role of national Government were no longer univocal and matter-of-course.

If a customer is not satisfied with a particular product, he is free to take his custom elsewhere. This does not apply to the Government; there is nowhere else for citizens to take their custom. So to a large extent, citizens are dependent on the Government. This is why Government officials and administrators are expected to satisfy special requirements. They must always act in accordance with the principle of legality. This principle implies that any duties performed by Government officials should be based on compliance with a law, or on a regulation derived from a law. Integrity has been the subject of much attention during the past few years.

INTEGRITY ON THE POLITICAL AGENDA

In 1992, the subject of the integrity of Government officials was high on the political agenda. The then Minister of Internal Affairs, Ms. Ien Dales, saw the mounting risks and was firm in her insistence on monitoring the quality of Government performance and in protecting citizens' trust in the Government. Trust of this kind is largely determined by the integrity of individual Government officials. Ms. Dales spoke the following words of warning in 1992:

'The Netherlands is a democratic constitutional state. The element of integrity is implicit in this term. A Government cannot be a constitutional state without demonstrating integrity. A dishonest Government will not be able to maintain law and order. A Government is either honest or dishonest. One cannot be slightly honest. The administration is dependent on the integrity of Government; a slur on the Government's integrity will inevitably lead to a loss of faith on the part of the people. And a democracy will not survive if the people lose faith in the Government. That is a depressing prospect'.

Faith in Government therefore relies on the credibility of its officials and administrators. If the public loses faith in the integrity of Government, this will strike at the very roots of our constitutional state.

Concern for Integrity: Here to Stay

The importance of integrity is timeless. So why is it receiving so much attention of late? Has there been so much abuse? Should the Netherlands be worrying about its system of Government? There are regular reports of unethical dealings in the newspapers. Dales made her address after revelations concerning corruption in local Government

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in the south of the country. The Dutch still clearly remember the Parliamentary enquiry into fraud in the construction industry. There are also examples of breaches of integrity within the Tax Administration. Yet there are no statistics that provide any evidence of a dramatic decline in the integrity of Dutch Government officials. A 1999 Ministry of Internal Affairs memorandum entitled: 'The integrity of public administration' observes that Dutch Government officials are skilful, professional, committed and honest. But integrity needs constant maintenance. Certain social developments mean that ethical standards will inevitably come under scrutiny regardless of the basic honesty of the majority of Government officials.

Changes in Moral Standards and Values

Many people complain about the *decay* of moral values, about slovenly moral attitudes. However, what we are possibly experiencing is more of a *shift* in moral values. Our moral standards and values are subject to continuous change. Nowadays, people think and act differently from how they did forty years ago. We have different ideas about what we consider to be appropriate and decent. This often gives rise to high-profile debates, both in the political arena and on the work floor, at home and on the streets. So one of the first things we must do when discussing integrity is to explore whether we consider yesterday's moral standards and values to be appropriate to the problems we face today.

New questions on the agenda

The development of moral standards indicates that we are re-thinking our position on certain issues re-appearing on the agenda. However, we are also being faced with new issues. For example, advances in technology mean increased possibilities, which in turn lead to new issues for the agenda. We are faced with questions for which we do not yet have a convincing answer. New methods of working and new approaches also give rise to questions. For example, the Tax Administration now works with a new system for recording working hours, it makes use of the Internet and e-mail, it has become more customer-based and there is more decentralised management since the reorganisation in 2003. In practice, the best way to learn how to cope with these issues is to discuss them openly with each other.

Democratising moral authority

In the nineteen-sixties, we relied on the Church, our political leaders, science and technology and the Government to guide us in questions regarding moral issues; in the years that followed, the authority of these institutions began to erode as citizens became more visibly forthright, calculating and critical, wanting to be part of the thought process and be included in discussions. Nowadays, moral authority no longer comes from above but from within. Citizens wish to shoulder the responsibility they feel is theirs as adult human beings; they want to have a say. Although this means that moral authority is becoming more democratic, it does not mean that people should be free to decide for themselves what is right and what is wrong. Moral standards and values are the guidelines on the way we wish to treat each other and it is therefore important that we continue to discuss the matter.

Dotting the 'i's

Integrity is not a new subject for staff working at the Dutch Tax Administration. For example, in the nineteen-sixties all new members of staff were issued with a copy of a booklet entitled 'Dotting the 'i's of the administration'. Amongst other things, this booklet contained comments and pointers with regard to subjects such as (not) accepting gifts and observing confidentiality.

Although much has changed since then, concern for integrity has remained. In 1995, a special working party was set up within the Tax Administration to examine the integrity of Government officials. The working party was commissioned to look into the best way of setting up integrity programmes. As a result, the Tax Administration opted for an approach that would appeal to the professional responsibility of its employees. This approach was also a declaration of the Tax Administration's trust in its own staff.

Large numbers of organisations opt for devising codes of conduct, for introducing more rules and regulations. The Tax Administration agreed that rules were important, but also deemed it necessary to invest in reinforcing the individual capacities of its staff to make their own judgments: how should I react in a difficult situation? Courses in dilemma training called 'Integrity for Government Officials' were provided on a large scale and the Tax Administration formulated basic values to be used as guidelines in difficult situations: credibility, due care and responsibility.

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In response to an incident, in 1999 the Netherlands Court of Audit concluded that despite the existence of sufficient good policy for advancing integrity, not enough had been done to put this policy into practice. The Tax Administration therefore decided to intensify its integrity programme. Integrity counsellors were appointed, all staff was issued with the 'Rules for Integrity' brochure and managers were provided with the training course 'Managing with integrity'.

THE IMPORTANCE OF INTEGRITY: FOUR-PRONGED APPROACH

Breaches of integrity undermine Government authority. Any law enforcement organisation in a monopoly position, like the Tax Administration, has specific responsibilities in this respect. Integrity also plays a role in the advancement of compliance. In other words, integrity on the part of the Tax Administration encourages tax-payers to cooperate with an efficient and correct tax collection system.

The Tax Administration has adopted a four-pronged approach to intensify its efforts to maintain levels of integrity. The four separate lines are: permanent attention, stimulation of personal responsibility, formulation of regulations and enforcement of regulations. These four lines are often referred to as verbs: *declare, discuss, agree and tackle*. All four lines are equally important; they are inter-dependent and they reinforce each other.

Line 1: Permanent Attention

Integrity requires the permanent attention of both staff and managers. Simply passing on a message is not enough to influence people's conduct, and nor is hanging up a poster on integrity or handing out a brochure. Staff should be stimulated to develop antennae for both the usual aspects of integrity at work as well as the unusual. They should be encouraged to pay serious attention to integrity on a regular basis. There is no reason to doubt the integrity of staff. But just like other valuable commodities, attention should be paid to its upkeep. An honest Government official usually knows how to behave, but certain situations can give rise to doubt or colleagues may sometimes have other ideas.

A lack of clarity and differences of opinion are not as unusual as one would expect. These are the 'natural' moments to bring up the subject of integrity. Or in other words: to say openly that in certain situations at

work, one must rely on personal integrity and that the appropriate course of action is not always clear to everyone. Integrity is a good subject to discuss during a coffee break. At the same time, it is also important that managers create formal opportunities for staff to express their opinions on a particular state of affairs. Most importantly, nobody should have to look the other way, quietly choose to follow his own chosen course of action or give vent to his grievances in the corridors. This kind of behaviour makes people feel that they cannot rely on each other and that tax-payers cannot rely on the Tax Administration.

Line 2: Stimulating Personal Responsibility

The second line involves stimulating employees to develop their own sense of responsibility. Each member of staff, whatever his position within the organisation, has specific responsibilities, an area in which he is expected to make his own decisions. One cannot always simply rely on following orders, rules and regulations. Many on-the-job situations require an individual interpretation, a judgment that complies with Tax Administration practices. An important feature of responsibility is a person's willingness to explain why he acted as he did. The word 'responsibility' comprises the word 'response': if a member of staff questions a colleague's reasons for doing something, he should be prepared to respond and discuss the options he felt he had at the time. This also entails: listening, and where necessary, revising one's opinion. It may take time, but not as much time as a strained working relationship, pressurised colleagues or distrustful tax-payers. Discussing these issues as and when they arise will save time in the long run. The Tax Administration has devised three basic values that might prove useful.

Line 3: Rules for Integrity

There is little point to 'declaring' one's standpoint if one is not prepared to 'discuss' it. Discussions should preferably be followed by agreements on what constitutes integrity. However, some things are impossible to regulate and prescribe unambiguously; no two real-life situations are alike, differences will always exist. But rules can be devised for the situations that arise on a regular basis. The main advantage of such rules is that they provide guidelines and certainty to individual employees. Rules ensure that everyone will deal with comparable situations in the same way, thereby also ensuring that tax-payers know exactly where they are with the Tax Administration. Agreements on integrity are

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therefore very important, but they should not be cast in stone. It should always be possible to reconsider an agreement if there is reason to do so. In this way, the Tax Administration will keep up-to-date and rules on integrity will stay in line with everyday practices.

Line 4: Enforcement

The fact that agreements do not last forever does not mean that they should be taken lightly. Instigating regulations without ensuring that we observe them will have an adverse effect on our credibility. So we all have a duty to confront those who do not comply with the rules on integrity. The organisation also has a clear responsibility in this respect; first of all, it should promote a culture in which it is normal to question each other's actions and conduct. Secondly, the organisation should pay explicit attention to compliance. These are all tasks that should be performed by managers in their attempts to promote integrity. This can sometimes mean: reprimanding staff or even imposing sanctions. Enforcement is an essential tailpiece to any policy on integrity. Nothing more and nothing less.

The Dutch Tax Administration has no cause for concern regarding the integrity of its organisation or its staff. The organisation should appreciate this and must continue to invest in maintaining the current level of integrity. All four lines of this approach must be pursued, as they are inextricably bound with each other.

THE BASIC VALUES

Basic values are the principles that express what people stand for. They can apply to individuals as well as groups of people, organisations or an entire society. Basic values may sometimes appear obvious. We tend to think that they do not need mentioning or discussing because they seem so incredibly logical. Which they are. Nonetheless, in stating these basic values we make a choice and we provide clarity and candour about the standpoint of the Tax Administration as an organisation and the people who work there. A standpoint that embraces **credibility**, **responsibility** and **due care**. These are not simply random values; they are basic values appropriate to the duties and responsibilities of the Tax Administration. They are in line with the expectations others (may) have of the Tax Administration. Our basic values can be seen as a summary of everything that the Tax Administration stands for.

Credibility

Credibility means that we must continue to fulfill the trust put in us by citizens and businesses. We are right behind our basic values and intend to live up to them. The aim of the Tax Administration is to ensure that tax-payers comply with (fiscal) legislation. Preferably of their own accord. The matter of whether the Tax Administration succeeds in this objective is largely dependent on the trust invested in us by citizens and businesses. And in turn, this trust is dependent on the credibility of each and every member of Tax Administration staff. Everything we do, wherever we may be, has implications for this trust. Others judge us by our dealings; it is up to us to prove that we take the basic values and pronouncements of the Tax Administration seriously and are able to put them into practice.

Responsibility

Responsibility means that we should take our duties seriously, performing them on the basis of legitimacy, legal certainty and equality of rights, and that we should be willing to account for our decisions. Every member of staff has responsibilities. These responsibilities emanate from Tax Administration duties and are in line with a person's specific function. The basic value of responsibility involves noticing what needs doing and making sure that this is done correctly and on the right grounds. It involves explaining why we do things in a particular way. Assuming responsibility and making oneself accountable go hand in hand; we must always be able to explain and account for our actions and decisions, both to our colleagues and to citizens and businesses.

Due Care

Due care means that we should treat tax-payers and each other with due respect, always remembering that we are here to provide a service. We must pay heed to the expectations, rights and interests of all concerned.

The Tax Administration is a public organisation. Our decisions and our working methods affect large numbers of people: tax-payers, for example, or tax customers, tax advisers, our colleagues, politicians or even our next-door neighbour. All these people have a right to expect that the Tax Administration will show due respect for their expectations,

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their rights and their interests. This implies that we, as representatives of the Tax Administration, must make sure that this happens. It does not mean that we should always try to keep everyone happy; rather that we should arrive at the best possible decision by weighing up the interests of all concerned. The basic value of responsibility implies transparent, reliable working methods and lucid, respectful communication with citizens and colleagues regarding our decisions.

The Purpose of Basic Values

The basic values express the core responsibilities of the Tax Administration. The fact they sound so normal and obvious probably means that the Tax Administration generally is succeeding in putting them into practice. Propagating them and implementing them into our day-to-day activities serves to show just how normal they are. The basic values represent a 'task' for every employee. The task of consistently fulfilling these basic values in such a way that customers and colleagues expect nothing less.

The basic values are the Tax Administration's calling card. They show the outside world what we stand for and what we want to achieve, as well as indicating that we are open to criticism. The basic values show citizens what they can expect from us.

It is usually quite clear what is and what is not permitted. But some choices can be less obvious. It is then up to the Tax Administration to come up with arguments and considerations that are in line with its responsibilities and basic values. The basic values provide a firm footing and direction. They add extra weight to a decision.

Basic Values in Practice

Basic values are general and abstract by definition. It is up to us to put them into practice. We must discuss how they affect our attitudes, our activities and how we implement them, so that we can make it clear to ourselves, to each other and to others exactly what we mean. So that the basic values give us more guidance when making decisions.

The Tax Administration encourages staff to discuss questions concerning integrity. This is not always easy. Moral standards and values are often seen as being 'subjective'; everyone has their own opinion, nobody has

a definitive answer. Basic values provide a basis for such discussions, because they surpass personal and individual opinions. Basic values, as the collective identity of the Tax Administration, form a link between professional values and personal convictions.

ARDI [ARGI]

Alongside publicising its Basic Values and Rules, the Tax Administration deploys a number of other instruments to underline the policy on integrity within its organisation.

These instruments are part of the so-called ARDI programme (Attention, Risk Management, Data Protection and Integrity). This programme was set up in response to an enquiry into the handling of confidential data, which was carried out by the Netherlands Court of Audit in late 1999 at the request of the Secretary of State for Finance. The ARDI programme comprises a number of sub-projects which all focus on security and integrity, varying from measures relating to logical access security, security of buildings and work stations, test teams and the certification of units right through to raising the awareness of individual employees with regard to integrity issues.

Training

Training activities are an important part of the programme. A special integrity training programme has been developed in partnership with the European Institute of Business Ethics at the University of Nyenrode. This programme replicates various dilemmas and includes suggestions for how to cope with these situations. The programme not only raises staff awareness with regard to integrity, but it also suggests concrete, well-structured approaches to problem situations. Teams and units take part in the dilemma training courses on a voluntary basis. There is another basic training course, which is obligatory for all new staff. This course comprises a starting module for integrity.

As well as the dilemma training courses, a course dealing with administrative integrity has also been designed for managers. Unlike the dilemma training course, this course does not look into the ins and outs of dilemma situations, but provides instruments to help fulfill the role of *manager* in the process of promoting integrity amongst staff.

Integrity counsellors

Alongside the training courses, another instrument used to support the policy on integrity is the Regulation on integrity counsellors and whistle-blowers. Integrity counsellors are “ordinary” members of staff who take on the additional voluntary task of acting as sounding-board and adviser for other employees with questions relating to matters of integrity. This can relate to their own integrity or suspicions of breaches of integrity by others. Protective measures have been introduced for the benefit of both the counsellors and those reporting suspected abuse. Whistle-blowers have the right to legal protection (against dismissal, relocation etc.) as long as they report abuse in accordance with a specific internal procedure. For the sake of clarity, it should be stated that whistle-blowers who report possible abuse to parties outside the organisation (to the media, for instance) will forfeit their right to protection.

Communication

Communication is an important aspect of the policy on integrity. The Tax Administration intranet has a separate site on integrity, and there are digital discussion forums. The idea behind this is to provide staff with a permanent, low-threshold means of communication in order to keep them up-to-date on important developments and aspects of the integrity and security policy within and outside the organisation. The site also comprises an easy-access reference function for regulations on integrity and highlights many common (moral) dilemmas and casuistry.

Monitoring

It is essential to monitor compliance with the policy on integrity. Although formulating policy and clear objectives and converting these into numerous regulations to ensure that a certain level of integrity is maintained is certainly important, it is not enough. You can put anything on paper, but it is just as important to ascertain whether the policy on integrity is being implemented in practice. Are the Tax Administration’s objectives realistic and are they being realised? Do certain measures actually help to tackle the problems they aim to solve? Processes cannot be managed without management information, as there is no other way of ascertaining where extra measures should be introduced or where existing measures are in need of modification. It is therefore important to monitor policy on integrity on a regular basis.

EVALUATION FRAMEWORK

The desired level of integrity is not always clear for every situation. The regulations do not cover every situation and sometimes, several possible solutions to a problem can exist. The Tax Administration Rules on Integrity and the three basic values of the Tax Administration form an important framework in terms of evaluation. The way in which certain decisions are made can also be an important criterion.

Evaluation by Colleagues

Every member of staff is primarily responsible for ensuring that he performs his duties in a credible, careful and responsible manner. Being responsible also means being accountable. This means that all members of staff are expected to make a regular assessment of their own performance. Discussing with colleagues what integrity really means in practice will aid this process. If a member of staff has doubts about a decision made by one of his colleagues, he should broach the subject whether the colleague wants to or not. It is not the intention that colleagues should check up on each other, but that they should learn from each other's different approaches in order to arrive at a better joint approach. The most important aim of this type of evaluation is to enable staff to keep each other on their toes and support each other in questioning whether their methods are line with the basic values of the Tax Administration.

Evaluation by managers

In the same way as other members of staff, managers are also expected to evaluate their decisions. However, they have another special responsibility in their role as manager. They should be able to recognise good and less good examples of integrity amongst their staff and not be afraid to call staff to account where necessary.

STANDARDS FOR INTEGRITY

Before evaluations can take place, standard criteria must be set. These criteria are very clear with regard to certain aspects. There is a handbook that specifies the standard required criteria for all procedures and measures aimed at data protection and integrity. These criteria are aimed at measures and procedures intended to promote the integrity of Tax Administration staff.

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The standard criteria are categorised into areas of attention, such as 'planning and control', 'buildings and installations' and 'staff and organisation'. Each criterion emanates from a guideline, which indicates the objectives of that particular aspect of data protection and integrity. Every criterion has been translated into measures and procedures. There are measures relating to informing, communicating with and training staff, with the aim of equipping them to satisfy the required integrity standards. There are also measures governing the registration, compliance with and monitoring of integrity.

The area relating to 'staff and organisation' receives the most attention. There are standards designed to prevent staff from embarking on risky combinations of duties and responsibilities, standards to help ensure that staff take due care when handling confidential information and standards to minimise unacceptable risks regarding data protection and integrity requirements when appointing new staff. There are also standard criteria for three specific integrity issues: side-line employment, accepting gifts and consulting with the integrity counsellor. Two of these standard criteria are described below by way of illustration.

Criterion for Appointing Staff

There is a risk that the Tax Administration may appoint staff who does not satisfy the data protection or integrity requirements. The following guideline has been formulated to prevent this from happening: 'when appointing or hiring a member of staff, depending on the type of function but regardless of whether he/she belongs to the internal or the external workforce, it should be ascertained whether circumstances currently exist or have existed in the past which could entail the member of staff in question constituting an extra risk with regard to his/her functioning within the Tax Administration'. One of the criteria contained in this guideline is: 'All internal members of staff have taken the oath or solemn affirmation of office'. If the office has satisfied this criterion, there can be no doubt that every member of staff will have been made aware of his/her duty to observe confidentiality and of the special status of Tax Administration employees. For example, every new member of staff must take the oath/solemn affirmation of office and must be issued with a copy of the brochure entitled 'Basic values of the Tax Administration' and the 'Tax Administration Rules for Integrity' brochure.

Criterion for Integrity Counsellor

Another guideline states that every office must ensure that all its staff are aware 'that their personal conduct reflects on the image of the Tax Administration as a whole and that their integrity should be beyond all doubt'. Staff should avoid situations whereby their personal interests clash with those of the Tax Administration, for example by accepting gifts or carrying out side-line activities. Should this happen, or if staff notice that one of their colleagues is involved in such a situation, it is possible to consult with an integrity counsellor. The criterion is: 'every member of staff in an office has the right to consult an integrity counsellor who can act as adviser and confidante for all matters concerning integrity'. The office has a duty to ensure that staff is familiar with the names, duties and powers of authority of the (local) integrity counsellors and where they can be reached.

THREE EVALUATION METHODS

The criteria and the measures are evaluated in three different ways: via internal control, the certification inspection and the test team.

Internal control

Most measures are implemented at office level. Office managers experience on a day-to-day basis whether security in their office satisfies the standards. Offices are quite capable of carrying out their own controls. This is called internal control (IC). Internal control can take place in one of three ways. Offices can check whether the rules are being observed in their immediate vicinity, for example by randomly checking the clean desk standard. The head of the office management team can also use the Internal Control Programme (ICP) to check whether he has set up the measures and procedures satisfactorily and whether they are being implemented correctly. The third method involves internal controls being carried out by the office security officer.

Certification inspection

Each year, the Tax Administration inspects every office to ascertain the level of compliance with security and integrity standards. This is called a certification inspection. The inspection is carried out in the same way and using the same criteria in every office. This standardisation makes

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it possible to obtain comparable, substantiated data on the level of security in each individual office and in the Tax Administration as a whole. It also provides insight into the extent to which an office may be failing to satisfy the standard criteria and where there is room for improvement. The certification inspection makes use of the information correlated during the internal controls, thereby avoiding double work. Staff and management are given prior warning of such an inspection and know how it will be organised. The Tax Administration aspires to transparency, which is the reason for publicising all information on how certification inspections are carried out and on whether an office has been issued with a certificate or not within the Tax Administration.

Certification is a way of showing that the Tax Administration considers the objectives of data protection and integrity so important that it expects every office to attain the required level. In evaluating this process, the Tax Administration helps stimulate the implementation of procedures and measures designed to benefit data protection and integrity. It also ensures that this issue attracts more attention and is more frequently discussed, making it easier for staff to confront others with their attitudes, behaviour, and responsibilities.

Test team

In addition to the internal controls and the certification inspections, the Tax Administration has designed a third evaluation instrument: the Security Test Team. The internal controls and the certification inspections are carried out periodically, whereas the Security Test Team makes random checks to root out potential weak spots in the organisation's security. The Security Test Team assumes the role of 'outsider', or in other words, it acts as if it is visiting the Tax Administration to carry out controls without prior knowledge. The controls are designed to ascertain whether existing security measures will prevent outsiders from gleaning information from Tax Administration sources. Security Test Team findings can lead to changes in security policy, more communication regarding security policy issues or the tightening up of existing security measures. The activities carried out by the Security Test Team are also designed to make staff aware of the importance the Tax Administration attaches to security and integrity. The Security Test Team operates under the responsibility of the Internal Accountants Service.

Reporting and Registering Incidents

In an organisation like the Tax Administration, good (information) security is a precondition for reliable business operations. The organisation also attaches importance to the security of its staff. The line management must therefore be properly informed of any incidents relating to security or integrity and all incidents (or potential incidents) that could put the business operations process at risk. For this reason, a procedure has been laid down for reporting and registering risks and incidents. The basic principle in all cases is: clear registration and annual reporting to the Director-General of the Tax Administration.

What constitutes an unusual incident?

An unusual incident involves a (potential) breach or an attempted breach of official integrity or (information) security. Signalled risks relating to integrity or (information) security, and the threat of violence against a member of Tax Administration staff, are also covered by this definition.

Registration

The registration and periodical compilation of all unusual incidents enables analysis. An analysis can help assess whether measures are sufficiently effective or whether new measures should be introduced. Unambiguous registration is essential if good analyses are to be made. The way in which incidents are registered depends on the category of the risk or incident in question. Registration models exist for every category. Special applications have been devised for unusual incidents relating to official integrity and the physical security of the buildings.

THE BOOMERANG

Data security and integrity are wholly dependent on the conduct of those working at the Tax Administration. In April 2001, 'The Year of the Boomerang' was launched, under the motto 'everything you do will inevitably come back on you'. The so-called Boomerang effect. If we act correctly, we will earn the trust and cooperation of the tax-payers. If we act incorrectly, we will lose our authority and the tax-payers will no longer be prepared to cooperate. At regular intervals during the Year of the Boomerang, specific aspects of data protection were put in the spotlight. Three principles featured repeatedly in each campaign: these were the 3 'golden shots'.

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1. Protect myself

Do nothing that my instincts tell me is wrong. I must not use information on tax-payers to my own advantage or for my personal pleasure, and I must accept no gifts on principle and always be cautious when embarking on side-line activities. In this way I can protect myself; I would rather catch the boomerang than have it hit me in the back of the neck.

2. Protect my colleagues

By discussing everything openly, we can look out for each other. If a colleague does something that I would not do, I will confront him with his actions. And if I am careless in my work, my colleagues may always draw this to my attention. By protecting others, I am also protecting myself. This too, is like a boomerang.

3. Protect the tax-payers

By actively securing all data. Quite simply, by keeping my password secret and clearing my desk whenever I am out of the office. And by not allowing strangers to wander around the premises. Data must be for internal use only; this is how I can protect the tax-payer. For I am a tax-payer too. And so the boomerang comes back to me once again. I protect myself.

FINAL WORD

Responsibilities and authority are being passed further down the organisation within the Tax Administration. New working methods and approaches give rise to new questions and problems. Integrity enhances quality, contributing to a pleasant working atmosphere and pride in one's work. A lack of integrity results in a corrupt culture in which the strongest are allowed to dominate and concerned, loyal members of staff become numbed, withdraw and eventually leave.

So the Tax Administration views integrity as a matter of professional responsibility. Policy on integrity aims to enhance the individual integrity of staff as well as the organisational context within which employees are expected to work.

Integrity is about people and we try to see it in terms of human capacities.

However, the vital importance of integrity means that our expectations are high. Every member of staff is ultimately responsible for his or her individual integrity. This means that all staff is personally responsible for assessing whether they consider their own conduct to be appropriate. This can be difficult. Grey areas will always exist; areas that fall outside the scope of the rules. The appropriate course of action is not always immediately clear. It is important that people in these situations are able to consider their options with due caution. Professional integrity involves much more than someone's personal opinions.

The three basic values provide staff with a foothold when dealing with matters of integrity in the work situation. As well as the basic values, rules are important. However, rules can sometimes be difficult to understand. It can be helpful if they are presented in a more manageable and understandable manner. This is the reason for the brochure Rules for Integrity in the making. This brochure makes use of simple language to describe the rules applying to Tax Administration staff. Unlike the brochure on Basic values, this brochure covers concrete issues such as confidentiality, accepting gifts and invitations, investing in securities (in order to prevent situations involving insider trading), carrying out side-line activities and attitudes to company property (official vehicles, computers, mobile phones, photocopiers and fax machines). A description of what is allowed and what is not allowed accompanies each separate item, along with the reasons. The brochure also deals with questions relating to everyday situations. And staff is repeatedly advised: if in doubt, consult with a colleague.

The Rules for Integrity brochure also looks into issues such as job mobility, job segregation and security or antecedent investigations for particular functions. For example, antecedent investigations are carried out for functions with the customs authorities which involve powers of investigative authority, and functions based in the Rotterdam Port Authority area or at Schiphol Airport.

But codes of conduct and rules are not enough. It is also important to deal openly with issues involving integrity within an organisation. Staff and managers should not be afraid to talk to each other about their conduct. Colleagues should not avoid raising difficult questions involving integrity. After all, integrity concerns every single member of the Tax Administration staff.

This is why the Tax Administration stresses the importance of assessment by colleagues. The best way to assess a decision is for

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people to explain their reasons for making that particular decision: What do my colleagues think about this? Have I missed something? Is this decision in line with Tax Administration policy?

The Tax Administration sees supporting staff in their professional responsibilities as one of the tasks and responsibilities of the organisation. In the first place, by setting a good example and making sure that the management actively aspires to integrity. The Tax Administration must also ensure that staff is sufficiently well-trained and equipped to perform their duties, and that the working conditions and atmosphere will promote a culture in which integrity will thrive.

Safeguarding integrity is a joint responsibility. All staff is expected to carry out their work in a credible, careful and responsible manner. They are expected to support each other in difficult situations. And they are expected to warn colleagues if they come close to overstepping the mark. Besides, managers are expected to ensure that staff comply with the regulations, to encourage staff to shoulder their responsibilities, to make sure that they act in accordance with the basic values in word and in deed (exemplary behaviour) and that they themselves are guided by these principles when making decisions and evaluating their staff.

CLOSING SESSION

GENERAL REPORT

Special Rapporteur

Rubén Aguirre Pangburn

Undersecretary of Revenue and President of SAT
Department of Finance and Public Credit
(Mexico)

The Secretary of Finance of the Netherlands, Joop Winj, formally opened this Technical Conference and described the internal structure adopted by the Netherlands in this regard – two general directorates: Tax and Customs Management and Legislation, led by Maarten Brabers, and Tax and Customs Administration, led by our kind host Jenny Thunnissen. They are both at the same level in the hierarchy and they have the obligation to work together, at least in the area of Legislation.



Ruben Aguirre Pangburn

Joop Winj also reviewed some of the most significant events in the history of taxation, like the Tenth Penny, which was a failed predecessor of the sales tax. He illustrated his presentation with a beautiful slideshow including a couple of paintings by Flemish artists. As regards tax lawmaking and management, he drew our attention to the essentially political nature of tax legislation, to the social legitimacy that tax systems need and the obligation to consider taxpayers fundamentally as citizens and, very practically, as economic agents. The competitiveness of the tax system to attract investment is not an issue that concerns developing countries exclusively, and Mr. Winj referred to the advantages of simplifying the corporate tax and bringing down its rate to 30%.

Víctor Uckmar reminded us of the challenges that globalization currently poses to tax policy and the anticyclical functioning that some countries wish it to have. Considering the specificity of tax policy, Paulo de Macedo, in this part of the program, was the one who insisted the most on the necessary involvement of tax administrations in the making of new laws.

GENERAL REPORT

They both referred to voluntary compliance, to the need to keep tax payers informed, to detect their reactions, and recognize their rights; Víctor Uckmar talked about the advantages of having an advocate of such rights, probably referring to a taxpayer's Ombudsman.

As regards the so-called tax lawmakers, who in fact are officials whose main role is to prepare legislation initiatives, it is essential that they consult with the tax administration. Both Maarten Brabers and Consuelo Arce stressed the need for the tax administration to participate in this process. However, the actual tax legislators in Parliament often make changes to the drafts prepared by the ministry, seeking to protect or openly benefit certain interests, too often complicating administration and compliance by the rest of the taxpayers.

The discussion of this issue led to another aspect of tax policy –in the case of European countries, the search for community harmonization, and in the case of Federal countries, the relationship between the Federal and the subnational governments. There are two opposing trends – Europe designs fiscal treatments that adjust to a single market under construction, while in some countries of the Americas, the single market that has always existed does not appear to be an obstacle for the reassertion of tax diversity among subnational governments.

I found the perspective of the tax administrator much more demanding than that of the official in charge of proposing new legislation –referred to in the program as the tax lawmaker. Thus, Jenny Thunnissen explains the various phases of the tax administrator's participation, which includes advising the tax lawmaker on the feasibility, applicability and cost-effectiveness of the legislation proposed. It is my opinion that the Dutch tax administration's task is significantly more laborious than that of most other administrations. For example, among the criteria proposed to achieve adequate laws, the following tests are mentioned:

- Appropriately and clearly defined target groups;
- Using unambiguous and clear concepts and definitions;
- Using clear criteria;
- Using fixed arrangements, valuation rules, fixed rates and amounts;
- Avoiding extremes and limits that are difficult to apply or complicated calculations;
- Keeping at a minimum the number of exceptions to the rule;
- Minimizing options for taxpayers.

Those of us who have been tax lawmakers or who have been consulted as tax administrators apply most of these criteria intuitively, but I was not aware of a tax administrator who would systematically submit draft laws to these types of tests.

In his presentation, Mario Rosselló openly referred to the need that the tax administration feels to participate directly in the design of fiscal policy and the corresponding bills presenting the example of the new legislation that was part of the Anti-evasion Plan of Argentina's Public Revenue Administration. He presented the cases of Australia and New Zealand, whose tax administrations have such powers.

The focus on control process improvement meant a significant change for Argentina as compared to the way in which proposals to reformulate rules were traditionally put forth. Before this experience, the Tax Administration would only draft initiatives to adjust a given tax and implement or change some special regime, but it did not have the possibility to promote a comprehensive package of measures.

The discussion made it clear that the need for greater or lesser intervention on the part of the administration will depend on the type of changes desired in the law. Ultimately, the Ministry of Finance has to make the best use possible of the scarce human resources, checking the feudal attitudes frequently found in those responsible for tax policy, on the one hand, and preventing tax administrators from establishing them, on the other. I think it is also important to develop a system, as in the Netherlands, for the tax administration's intervention and responsibility as regards consultations about new laws, since its main purpose is not to discuss tax policy issues as they usually do, but to give advice, from the viewpoint of the tax administrator, about the feasibility, applicability and implementation costs of the changes proposed.

In her presentation, Jenny Thunnissen also referred to the issue of implementation and assessment of new tax laws. In connection with implementation, she highlighted three tasks that most probably all tax administrations perform, but which we should always bear in mind: officials and the public must be informed that the new legislation will enter into force, they must be informed of the effective date of such legislation and how it will be applied and enforced. For this purpose, it is necessary to prepare information dissemination and training material. Automated systems must be duly and timely adjusted and new forms and procedures must be prepared.

GENERAL REPORT

Claudino Pita proposes to systematize the processes for implementation and assessment of the new legislation in a specialized unit. Ricardo José de Souza Pinheiro pointed out that the SRF goes about this assessment process through two general coordination offices: Tax Policy, responsible for estimating economic impact (public revenue, prices, salaries, income, consumption and saving), and Taxation, which performs a legal assessment of the laws and of its own internal rules, to provide legislators with objective information that can help improve the lawmaking process.

In my opinion, it is only natural that those who propose tax policy and bills assess their own work, that is, tax lawmakers, as we call them, who frequently complain about the mistakes made by the administration when implementing and applying the reforms. That is why I think that the tax administrator, in turn, has to assess the new legislation, and it would be useful to define the main assessment guidelines for each of them. Ultimately, the tax lawmaker and the tax administrator both work for the same reason: we all love taxes.

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Stephen Rigby from Canada introduced the topic of compliance and administration costs. He defined costs associated with compliance as the total amounts that taxpayers must pay in order to comply with all laws, regulations and other fiscal requirements. Administration costs are usually the costs incurred by the tax administration to manage and ensure compliance with all fiscal programs.

High compliance costs may become an obstacle for commercial innovation, entrepreneurship and, above all, competitiveness. Therefore, governments should find the right balance in a tax policy that ensures collection, drives the economy and sets social and economic rules, while remaining simple in terms of management and compliance.

For small and medium-sized companies, which represent the bulk of those paying taxes and a significant portion of fiscal revenue, the Canadian Revenue Agency reduces the compliance burden through general initiatives to promote savings for taxpayers by means of the use of electronic services, the combined verification program –where taxpayers deal only with one auditor, and compliance problems may be solved at the same time- as well as the program for verification from the office. In addition, in taxes on goods and services and the

harmonized sales tax, taxpayers are given several rights with the purpose of reducing compliance burden and promoting establishment.

In the case of large companies, cost reduction is based on other instruments, such as advance resolution, real-time auditing, the verification protocol, an account manager, an incentive program for scientific research and experimental development, and advance agreements in transfer pricing.

Stephen Rigby pointed out that the basic strategy consists in inspiring trust among taxpayers and working jointly with other federal ministries and with provincial governments. Likewise, he promotes a participation process in which the staff, the public and the unions have the possibility to propose ideas about how to define the future of compliance management, for which he proposes several large-scale projects.

Among future initiatives, he highlights the company number, which would enable the single account and standardized bookkeeping. Mats Henriksson and Carlos Silvani, acting as discussants, stressed the challenges and opportunities arising from a single number and registration over the Internet. Is the domicile verified? Are ID's verified? Why are wage-earners without any other income or with several interests forced to file a tax return?

Advanced electronic signature with an in-person procedure and biometric identification may make Internet communication more reliable and might therefore, in the future, facilitate registration over the Internet.

Nahil Hirsh and Willemjan Huijssoon talked about compliance cost measurement and management. Ms. Hirsh explained the methodological framework based on which tax compliance cost was defined as the combination of three compliance events: return submission, payment and accuracy of the information presented. Mr. Huijssoon reported that the Dutch cabinet undertook to reduce compliance costs for companies by 25% between 2002 and 2007. The Dutch method is a standard cost model derived from multiplying amount of time by price. What is important here is that the measurement is made by a third party and that the Council of Ministers reviews the compliance costs of every legislative reform.

GENERAL REPORT

The important reform with which the Netherlands intend to achieve a significant reduction in compliance costs consists in equating, in as much as possible, the bases of social security contributions and income tax, and the Tax Administration would take over the management of social security receipts.

The measurement and management of administration costs was the subject of Jean-Marc Fenet's and Vicente Saavedra's presentations. In France, costs are measured and managed in four stages:

- Measuring by comparing equivalent expenses, which are therefore comparable.
- Sharing information in a completely transparent way.
- Identifying a person in charge, and allowing the comparison of results.
- Reducing expenses and making a better use of resources. Apart from reducing expenses, subsequent increases should be prevented by ensuring a good coordination between the drafting of fiscal laws and the enforcement thereof, submitting legislative measures to the "impact study" technique

In the case of Ecuador, the Law whereby the Internal Revenue Service was created stipulates that the said Service will have a budget of 1.5% of the revenue raised and will have administrative autonomy. The administrative and budgetary autonomy established under this Law provides sufficient flexibility for the IRS to manage human, material and financial resources and to introduce control mechanisms to avoid unnecessary expenses.

The more general topic of compliance and administration costs concluded with a more specific one, that is, the use of the Internet as a mechanism to reduce such costs. We heard two excellent presentations by Juan Toro and Nelson Gutiérrez; however, for the purposes of our program their conclusions turned out to be rather disappointing since they both indicated that the Internet does not reduce administrative and probably compliance costs. Everyone appeared to agree with that view; however the Internet generated great interest and we heard enthusiastic comments.

In the long run, the Internet will reduce administrative and compliance costs. The Internet represents a revolution that goes way beyond the issue of taxation and it will undoubtedly set the evolution trend of the first half of the 21st Century.

This example, in my opinion, serves to put the issue of cost reduction in perspective. In these global times, companies' compliance costs are an important competitiveness factor. It might be more efficient to reduce such costs than the tax burden itself; however, such reduction should not weaken the tax authority's control. There is plenty of information that is not used and could be cut down.

In the case of administration costs, the situation is different from that of companies. A company manager that reduces its costs in a proportion larger than sales will manage to increase company profits. A tax administrator that reduces costs by half with a consequent reduction in revenues of no more than 5% will be achieving an awful result, even if the corresponding indicator records a sensible improvement. It is always possible to reduce costs without affecting revenues, but the cost-benefit analysis of tax measures requires a good deal of intuition, which is an attribute of any good tax administrator.

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The last topic was entitled "Control as a Key Management Function in the Tax Administration" and was presented by Fernando Díaz Yubero.

The Tax Administration Agency of Spain considers that as the agency responsible for the enforcement of the tax and customs system, a Tax Administration should plan, design strategies, set objectives and take the necessary action to achieve results. In addition, it is his opinion that management control will make it possible to decide to what an extent the results obtained derive from the goals set, what deviations have occurred and for what reasons, and based on that set corrective measures and provide information to be used as the basis for future planning for the short, medium and long term.

Over time, the Agency has achieved a goal-based culture, stable indicators, a powerful IT system and clear-cut responsibilities; however, a recent review has shown, among other things, an excessive focus on liquidated debt and the distorting effects it has had. Díaz Yubero referred to a paradigm change: our objective is to make sure that there is no tax fraud or at least manage to reduce it.

We normally accept that modern tax systems are based on voluntary compliance; however the indicators with which we intend to measure our performance and with which the organization operates are based, like in Spain, on quantifiable results of auditing and collection activities –liquidated debt or the debt effectively collected are oftentimes the key elements; in Spain they are used even to determine the Agency's budget.

GENERAL REPORT

The reference to a change in paradigm raised questions: How can we move from fraud detection to prevention? From curative to preventive medicine? Fernando Díaz Yubero mentioned the Council report for the defense of taxpayers, which proposes solutions and which, in my opinion, should provide a complementary and indispensable view.

What is the reason for the difference between a sizable liquidated debt and a much smaller, actually collected one? Undoubtedly, one of the reasons is the indicator based on which auditors' effectiveness is measured.

Clive Nicholas emphasized the need for an information system that provides the data necessary to evaluate key activities. Robert Szurman commented on the difficulties in going from planning understood as political propaganda to an actual administrative planning.

Strategic Plan Control was the topic of Deborah Nolan's and Frank Daly's presentation.

The Internal Revenue Service adopted a strategic planning process covering the budget, performance and assessment. In accordance with the Law, three documents should be drafted: Strategic Plan, Performance Plan and the corresponding Report.

The IRS's Strategic Planning process covers six phases: Strategic Assessment, Commissioner Planning Guide, Program Planning, Congress Justification, Business Planning and Performance Management. In addition, three components are considered: customer satisfaction, employer satisfaction and business results.

The IRS has three objectives:

- Improve taxpayer service.
- Promote compliance with the law.
- Modernize the IRS through its people, processes and technology.

Key Performance Indicators are: Customer Satisfaction, Employer Satisfaction, Business Results-Quality, and Business Results-Quantity. Traditional liquidated debt and collected debt indicators do not measure taxpayer or employer satisfaction, they do not say anything about the quality of actions taken and they only focus on quantity.

GENERAL REPORT

For the Irish Tax Administration, the key for the successful implementation of a strategic plan is to make sure that the entire staff can establish a link between their daily activities and the strategic goals. For this purpose, taking the Strategic Plan as the starting point, the Administration has adopted business plans by division, as well as a performance management development program applicable to each staff member.

Frank Daly described the use of a revenue performance card to control compliance with the Plan and at the end he stressed, "One thing is certain –for a Strategic Plan to be effective it has to be a living document owned by the entire staff". And I underscore the phrase "owned by the entire staff".

Both Deborah Nolan and Frank Daly attached special importance to the indicator that measures satisfaction of the public.

The issue of productivity control was presented by Peter Richer and Mario Aranguren.

The Tax Administration of South Africa was established on April 1, 1996 as a government department with administrative autonomy. South Africa faced several obstacles, among others, little knowledge about fiscal matters, a highly complex tax system, preferential treatment of certain sectors, an inadequate technological infrastructure, and widespread internal fraud and corruption.

The Tax Administration modernized itself, introduced tools and techniques to increase revenue raising, redefined its strategic direction, undertook a turnaround program with an improved and stable technological platform and a new labor culture. In addition, it undertook a responsible law enforcement effort. In order to achieve greater productivity, South Africa requires a global fiscal reform, changes in its internal administrative vision and commitment towards taxpayers.

Colombia's Tax Administration is building the MUISCA (Modelo Único de Ingresos, Servicio y Control Automatizado – Single Income, Service and Automated Control Model) project, which will make it possible to make an effective and intelligent use of information and which will ensure that management activities are transparent.

GENERAL REPORT

The model proposes different types of incentives for employer productivity, improving the scheme to measure and evaluate performance and changing the compensation system, which will include a fixed factor, related to the official's profile, and a variable one, which depends on individual, group and institutional performance in terms of goal achievement, which stimulates individual performance and team work.

The last topic was Integrity Management and the presentation was made by Sonia Fernández and Will de Haan.

The Dutch Tax Administration has created a program called ARDI (Service, Risk Management, Data Protection and Integrity), which includes several instruments to put a focus on the integrity policy at all levels. Some of those instruments are training, integrity advisors, communication, monitoring and an adequate evaluation framework. The latter is implemented through an "Internal Control" (at the office level), a "Certification Inspection" (annual reviews by the Tax Administration) and a "Test Team" (random reviews to eliminate potential weaknesses in the organization's safety).

The Cuban Tax Administration developed a plan to fight corruption, establishing control actions, training, organization, technological process documentation and strengthening ethical and institutional values. As a result, the Administration managed to increase preventive work and thus reduce corruption indices.

Every self-respectful Cuban quotes José Martí, and Sonia Fernández was no exception. I would like to close this report with the quote she chose:

"Every man is obliged to honor his homeland with his private and public deeds"

THANK-YOU WORDS ON BEHALF OF PARTICIPANTS

Horacio Castagnola
Director
General Tax Administration
AFIP – Argentina

Ladies and Gentlemen,

I have been entrusted with the most delightful task, which I accepted with great pride –to summarize in a few words the large variety of moments, feelings and emotions we have all experienced in this 2004 CIAT Technical Conference in this beautiful city of Amsterdam.

As soon as we stepped on this beautiful country's soil we perceived the elements that would characterize our stay in the Netherlands: absolute efficiency in the organization of the Conference and the warmth and infinite hospitality of each and every person through whom the Tax and Customs Administration of the Netherlands accompanied us and made our stay nice and comfortable.

The entire experience, from the magnificent welcome cocktail party hosted by the authorities to the tours we made, gave us the feeling that we were placidly entering a different world, a better world.

I could dwell on each experience we have had and stress the beauty and peace that covers the movement of the city and its people, like an invisible mantle.

I could recall the promenade around the canals to the reception in the Royal Tropical Institute, where the music, art and humor of outstanding artists crowned an exceptional evening.

I could talk about the city's little streets and parks, its harmony and the aesthetics of its constructions and buildings, about the thousands of windows that ornament and enhance the beauty of the city.

CLOSING SESSION

I could talk about the omnipresent VAN GOGH and his museum, and the love that people feel for that master artist whose paintings we have all dreamt of seeing, not in a book or in a reproduction, but from that close distance from which the magnificence of an outstanding artist can be fully and deeply perceived.

I could talk about the beauty of the local food.

If food is one of the most powerful representations of the culture of a nation, I can have no doubts about the privileged position that culture enjoys in this country.

I should thank each and every instance of hospitality that we have all enjoyed during these few days.

In particular, I would like to thank the members of the Organizing Committee for their great efficiency and their kindness: Thank you very much, you did an excellent job.

I would also like to thank the outstanding team of translators, who have allowed us to communicate with one another so naturally that we sometimes would not even notice they were there.

However, I believe we should stop here and express our appreciation for something more profound, much more transcendental.

Something that we perceived from the very first day. Something that has been among us all the time but which became tangible and striking during yesterday's visit to the Zuidersee Museum.

That is where we saw the true beauty and strength of the people of this country.

It was through that short, black and white film narrating the epic struggle of this country with the sea that we saw and fully appreciated the essence of this country: its capacity to fight, its willpower, its capacity to live.

This country built itself, against all odds, all obstacles, thus defining its true nature.

This country very compellingly showed to the world that work and willpower are the true basis for development, wellbeing and justice.

CLOSING SESSION

No wonder they are in peace.

No wonder they convey a beautiful image of freedom and social harmony.

No wonder they can now show to those that have had the privilege to know them better that work and willpower can allow man to grow and become better.

Those ten minutes of a black and white film are what we should be most deeply thankful for.

We will always carry that life lesson from a nation to the rest of the world in our minds and hearts.

These are the feelings of those who have been fortunate enough to spend these few days in the Netherlands during this successful and unforgettable 2004 CIAT Technical Conference.

TECHNICAL PROGRAM

DAILY SCHEDULE OF ACTIVITIES

**MAIN THEMES: THE ROLE OF TAX ADMINISTRATIONS IN TAX LEGISLATION.
CONTROL AS KEY MANAGEMENT FUNCTION IN TAX ADMINISTRATIONS**

Monday, October 4

Morning

- 09:00-09:30 **Inaugural ceremony.**
- 09:30-10:15 **Official photograph and recess**
- Topic 1. Tax management as an element to be considered in the formulation of tax legislation**
- 10:15-10:20 **Moderator:** Jorge Eduardo Zegada Claire, President, CIAT Executive Council.
- 10:20-10:50 **Speaker:** Joop Wijn, State Secretary of Finance, the Netherlands.
- 10:50-11:10 **Commentators:** Paulo de Macedo, Director General of Taxes, Portugal; and Victor Uckmar, Professor, University of Genoa, Italy
- 11:10-11:40 **Open discussion**
- Topic 1.1. Forms of participation of the Tax Administration in the development of proposed tax laws, the perspective of the tax legislator**

TECHNICAL PROGRAM

- 11:40-11:45 **Moderator:** Merlin Sergeant, Chairman, Board of Inland Revenue, Trinidad & Tobago
- 11:45-12:25 **Speakers:** Maarten Brabers, Director-General for Tax and Customs Policy and Legislation, the Netherlands; and Consuelo Arce, General Coordinator of Advisors, Public Finance and Credit Secretariat of Mexico
- 12:25-13:00 **Open discussion** Debate Coordinator: Rodrigo Montufar R., Member of the Board, Superintendence of Tax Administration, Guatemala
- 13:00-14:20 **Lunch Afternoon**
- Topic 1.2. Forms of participation of the Tax Administration in the development of proposed tax laws, the perspective of the tax administrator**
- 14:20-14:25 **Moderator:** José Gregorio Vielma Mora, National Tax Superintendent, SENIAT, Venezuela
- 14:25-15:05 **Speakers:** Jenny Thunnissen, Director-General of the Tax and Customs Administration, the Netherlands; and Mario Rosselló, Deputy Director General of Examination, Argentina
- 15:05-15:40 **Open discussion** Debate Coordinator: Márcio Verdi, Director of Strategic Planning and Studies, CIAT
- 15:40-16:10 **Recess**

TECHNICAL PROGRAM

Topic 1.3. Implementation and evaluation of tax laws

16:10-16:15 **Moderator:** Willy Waldemar Zapata, Superintendent of Tax Administration, Guatemala

16:15-16:55 **Speakers:** Claudino Pita, Director of Studies and International Cooperation, Federal Administration of Public Revenues Argentina; and Ricardo José de Souza Pinheiro, Deputy Secretary, Federal Revenue Secretariat, Brazil

16:55-17:30 **Open discussion** Debate Coordinator: María Raquel Ayala, Research and Training Manager, CIAT'

Tuesday, October 5

Morning

Topic 2. Compliance and administrative costs

09:00-09:05 **Moderator:** Eduardo Zaindentsztat, General Director of Revenues, Uruguay

09:05-09:35 **Speaker:** Stephen Rigby, Assistant Commissioner Policy and Planning Branch, Revenue Agency, Canada

09:35-09:55 **Commentators:** Mats Henriksson, Tax Director, National Tax Board, Sweden; and Carlos Silvani, Deputy Director, Fiscal Affairs Department, International Monetary Fund

09:55-10:30 **Open discussion**

10:30-11:00 **Recess**

TECHNICAL PROGRAM

Topic 2.1. Measurement and management of compliance costs

11:00-11:05 Moderator: William Layne, Permanent Secretary of Finance, Ministry of Finance & Economic Affairs, Barbados

11:05-11:45 Speakers: Nahil Hirsh, National Superintendent of Tax Administration, Peru; and Willem-Jan Huijssoon, Ministry of Finance, Directorate General of the Tax and Customs Administration, Compliance and Enforcement Department, the Netherlands

11:45-12:25 Open discussion Debate Coordinator: Horacio Castagnola, Director General, Tax General Directorate, Federal Administration of Public Revenues, Argentina

12:25-13:45 Lunch

Afternoon

Topic 2.2. Measurement and management of administrative costs

13:45-13:50 Moderator: Róger Arteaga, Director General of Revenues, Nicaragua

13:50-14:30 Speakers: Jean Marc Fenet, Head of Resources Service, General Directorate of Taxes, France; and Elsa de Mena, Director General, Internal Revenue Service, Ecuador

14:30-15:10 Open discussion Debate Coordinator: Elvin T. Hedgpeth, Deputy Director, International Programs, Internal Revenue Service, USA

TECHNICAL PROGRAM

- 15:10-15:40 **Recess**
- Topic 2.3. The use of Internet to reduce compliance and administrative costs**
- 15:40-15:45 **Moderator:** Mario Duarte Caballero, Executive Director of Revenues of Honduras
- 15:45-16:25 **Speakers:** Juan Toro, Director, Internal Tax Service, Chile; and Nelson Gutierrez, Director of Operations, CIAT
- 16:25-17:00 **Open discussion** Debate Coordinator: Socorro Velazquez, Director, International (Overseas Operations), Internal Revenue Service, United States

Wednesday, October 6

FREE DAY

Thursday, October 7

Morning

- Topic 3. Control as key management function in the Tax Administration**
- 09:00-09:05 **Moderator:** Jacques van Blijswijk, Deputy Director-General of the Tax and Customs Administration, the Netherlands
- 09:05-09:35 **Speaker:** Fernando Diaz Yubero, President of the Technical Bureau of Coordination for International Relations, State Agency of Tax Administration, Spain

TECHNICAL PROGRAM

- 09:35-09:55 **Commentators:** Clive Nicholas, Director General for Tax Administration, Ministry of Finance and Planning, Jamaica; and Robert Szurman, Director General, Central Financial and Tax Directorate, Czech Republic
- 09:55-10:25 **Open discussion**
- 10:25-11:00 **Recess**
- Topic 3.1. The control of strategic plans**
- 11:00-11:05 **Moderator:** Roy May, Director General of Taxes, Surinam
- 11:05-11:45 **Speakers:** Deborah Nolan, Commissioner, Large & Midsize B. Division, Internal Revenue Service, United States of America; and Frank Daly, Chairman, Revenue Ireland
- 11:45-12:25 **Open discussion** Debate Coordinator: Nelson Gutiérrez, Director of Operations, CIAT
- 12:25-13:45 **Lunch**
- Afternoon**
- Topic 3.2. The control of productivity**
- 13:45-13:50 **Moderator:** Cedric Josepa, Director of Fiscal Affairs, Netherlands Antilles
- 13:50-14:30 **Speakers:** Peter Richer, General Manager, Risk, South Africa Revenue Service; and Mario Aranguren, Director General, Directorate of National Taxes and Customs, Colombia

TECHNICAL PROGRAM

14:30-15:10	Open discussion	Debate Coordinator: Marc Amouroux, Head French Mission before CIAT, General Directorate of Taxes, France
15:10-15:40	Recess	
	Topic 3.3.	The management of integrity
15:40-15:45	Moderator:	Orlando Reos, Division Chief of State and Civil Society Programs 1, Inter-American Development Bank
15:45-16:25	Speakers:	Sonia Fernández Ramírez, Legal Director, National Organization of Tax Administration, Cuba; and Will de Haan, Member of the Dutch Tax and Customs Administration Management Team, the Netherlands
16:25-17:00	Open discussion	Debate Coordinator: François Guimont, Deputy Commissioner, Canada Revenue Agency
17:00-17:30	General Report	
17:30-18:00	Closing ceremony	

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52nd CIAT Technical Conference

Amsterdam, the Netherlands

October 4 – 7, 2004

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