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**“CONTROL AS KEY MANAGEMENT FUNCTION IN TAX ADMINISTRATIONS.
THE ROLE OF TAX ADMINISTRATIONS IN TAX LEGISLATION”**

Topic 2.1

“MEASUREMENT AND MANAGEMENT OF COMPLIANCE COSTS”

Peru

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Case study

TOPIC 2.1 TAX COMPLIANCE COSTING METHODOLOGY

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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.

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 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.

1. 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

¹ Pope, Jeff; *The Administrative and Compliance Costs of International Taxation: An Introduction for Research Students*; Department of Economics, Curtin University; Australia.

costs are those in which taxpayers incur because of the mere fact of having to comply with tax laws, 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.

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.

2. 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.²

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.³

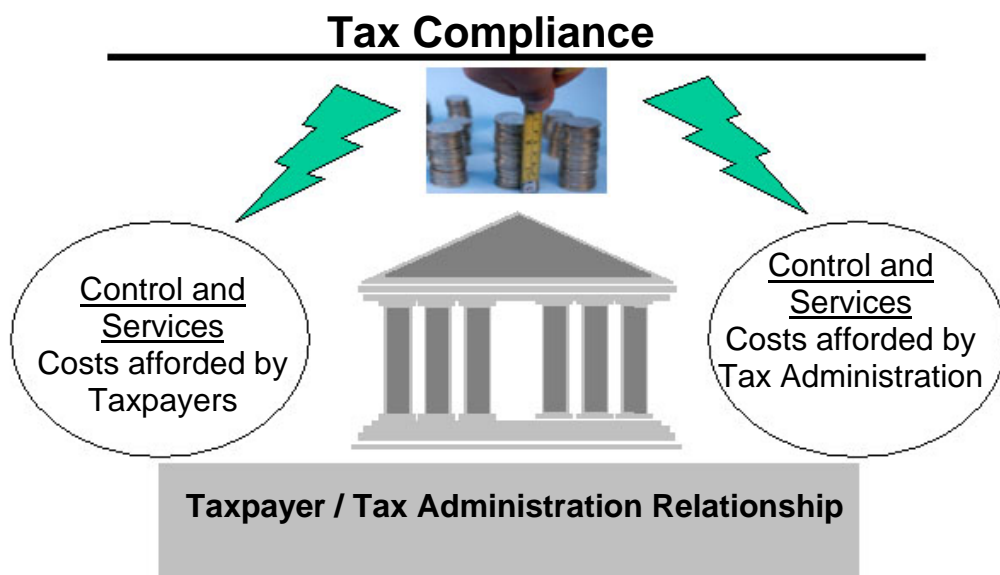
The quantification of tax compliance costs is supported on:

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.



² Tax Code, Legislative Decree N° 773; Norm II, First Paragraph; from 31.12.93.

³ Haughton Jonathan; *Measuring the compliance costs of excise taxation*; African Economic Policy, Discussion Paper Number 14, December 1998.

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

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.

3. 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.

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).

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).

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.

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).

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 SUNAT 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.

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
		Internal accounting personnel				Amount
		Family Member / Friend.				Amount
	Other (Specify).	Amount				
	Infrastructure	Machinery and/or equipment Depreciation or Rental.	Survey / Questionnaire Annex N° 01 CD: Question N° 6 CP: Question N° 9 CE: Question N° 12	Taxpayer	Auditors	Amount
		% of Real Estate Depreciation or Rental.				Amount
		Telephone lines, computer network, Internet, Radio communication.				Amount
		% of Depreciation for furniture and household goods.				Amount
	Overhead	Financial expense linked to Tax Compliance.	Survey / Questionnaire Annex N° 01 CD: Question N° 7 CP: Question N° 10 CE: Question N° 13	Taxpayer	Auditors	Amount
Transportation and other similar.		Amount				
Outsourcing.		Amount				
Others.		Amount				

Note:

CD = Return Compliance.

CP = Payment Compliance.

CE = Exactness of Data Submitted in the Return Compliance.

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.

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.

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:

- Changes in tax legislation should not be done frequently, since this is the only manner to reduce adjustment stages to new demands, as well as the complexity of the tax system.
- 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 difficult.
- 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.

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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

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.
	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.

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.

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, en 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.	
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* Consider the total annual amount – the entire organization – only the part relating to tax return compliance obligations.

According to indirect costs that you use 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.