



CIAT Technical Conference

**Viable Tax Administration,
Viable State**



Cartagena, Colombia
September 28-29, 2005



Inter-American Center of Tax Administrations - CIAT



Tax and National Customs Directorate- DIAN

CIAT TECHNICAL CONFERENCE



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Viable State**

**Cartagena, Colombia
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Executive Secretariat

P.O. Box 0834 - 02129
Panama, Republic of Panama
Web site: <http://www.ciat.org>
E - mail: ciat@ciat.org
ISBN: 978-9962-647-18-8

336.2

In Inter American Center of Tax Administrations - CIAT

Viable tax administration, viable state / compiled by Damaris Bolaños; translation by Inter - American Center of Tax Administrations – CIAT: ilus. José M. Canto y Juan M. Bermúdez. — Panama: Inter-American Center of Tax Administrations – CIAT, 2007.

511 p.; 23 cm.

Original title: Administración tributaria viable, estado viable

ISBN: 978-9962-647-18-8

1. TAXADMINISTRATION 2. ORGANIZATION
3. INFORMATION SYSTEMS I. Title

Published by Inter-American Center of Tax Administrations - CIAT

Compiled by: Damaris Bolaños
Diagramming and Set-up: José M. Canto and Juan M. Bermúdez C.
Translation: CIAT

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PRESENTATION ON CIAT

PRESENTATION ON CIAT

CIAT is a public international organization established in 1967 to promote the improvement of the tax administrations through: exchange of ideas and experiences; technical assistance and training; compilation and distribution of information; and promotion of technical research.

The Center is formed by twenty-nine countries from the Americas, five European countries as full members and two countries: Czech Republic and South Africa as Associate Members. The Minister of Finance or Treasury of each country designates the positions in his tax administration, the incumbents of which are the Representatives at CIAT.

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INAUGURAL CEREMONY

WELCOMING ADDRESS

Oscar Franco Charry

Director General

National Tax and Customs Directorate – DIAN
(Colombia)

In the position we have been honored with as the host country of CIAT's 2005 Technical Conference, which is starting today and shall continue until Thursday 29 September 2006, in Cartagena de Indias, the National Tax and Customs Directorate of Colombia welcomes all participants trusting that, with affection and effort, we shall be able to meet all your expectations during this event.

The thematic content of this Technical Conference, which prompts us to reflect upon the *raison d'être* of the Tax Administration as an enabler of Government, will allow us to highlight the success factors of good service and review work which, in addition to seeking better public funding outlooks, shall also integrate a sense of social commitment in the framework of actions aimed at achieving faster economic growth, an enhanced citizen culture and adequate welfare.

As we can tell from the agenda of this Technical Conference, those success factors are hinged on the degree of awareness each State manages to raise concerning the true importance of tax administrations, their readiness to face change, as well as the leveraging of technology.

The National Tax and Customs Directorate – DIAN – takes pride in receiving my distinguished counterparts and their companions in Cartagena de Indias in the framework of this meeting which we hope will help to build a technically valid momentum to bring countries' change trends closer, in a context which is eager for harmonization and communication.

OPENING CEREMONY

Speech by Mr. Jorge Cosulich Ayala, Executive Secretary of CIAT

Ladies and gentlemen,

I wish to greet the distinguished authorities who are with us at this opening ceremony with great affection, especially Dr. Gloria Inés Cortes, Deputy Minister General of Finance of Colombia, Dr. Alberto Barbosa, Mayor of the City of Cartagena de Indias, Dr. Oscar Franco Charry, Director General of DIAN and his good collaborators. I wish to extend our deep appreciation and gratitude to the Organizing Committee of this Conference, chaired by Ms. Blanca del Socorro Murgueitio Restrepo, for organizing this Technical Conference which, without a doubt, shall be featured by the quality and excellence which are customary at CIAT's international events. In particular, I thank you for offering us this magic and cozy environment at this beautiful city of Cartagena, globally renown for its status as a historic, artistic and cultural World Heritage Site, and also as the most beautiful pearl, not only of the Caribbean, but of all of the Americas.



Mr. Jorge Cosulich Ayala

I also wish to greet and most warmly welcome all the delegations which are honoring us with their presence at this event and which, as at earlier occasions, allow us to reassert CIAT's taxation FORUM as one of the most relevant worldwide. Throughout this week and in the framework of a very well designed program under the stimulating title of "Viable Tax Administration, Viable State", we shall reflect upon essential topics ranging from the positioning of tax administrations in society in terms of their involvement with and commitment to society's progress and welfare, to the regulatory tax framework and its

INAUGURAL CEREMONY

weaknesses, types of business and fraud, to tax evasion and tax review systems, which topics will surely lead us to ponder deeply and rethink our good organizational practices, processes and tax and customs information systems.

The fact that Cartagena is once again the venue for one of CIAT's international events is eloquent of the unique and close relationship of collaboration between Colombia and CIAT.

In effect, not only has Colombia been a CIAT founding country and one which has always been involved enthusiastically and at very high technical quality levels at all of the events and activities organized by CIAT, but also, through DIAN, an endless source of novel ideas and experiences which have revolutionized the management of many tax processes at CIAT-member countries and enabled great strides in the effort of modernizing our tax administrations.

Furthermore, DIAN has not only been a source of inspiration and innovative ideas, but has also kindly provided us with its best professionals to work at CIAT's Executive Secretariat in the multiple projects that we have undertaken throughout the Americas and the Caribbean over the past 25 years.

I would like to take this opportunity to pay a tribute of deep recognition and admiration to this Colombian officials and consultants to CIAT; for their professionalism, their courage, working capacity and determination in facing difficult situations; for their talent and resourcefulness in solving problems and understanding and adjusting to different cultural environments. I wish to thank you, my dear Colombian friends, for your work and significant contribution to CIAT.

I also wish to stress that the holding of this Technical Conference in Colombia is due to our Colombian colleagues' strong desire to share with all our member countries and special guests the experiences and outcomes of the great work carried out by DIAN to modernize its tax and customs administration. By using strategies, policies, methods, techniques and technology which have been a milestone in IT and process management, they have endeavored to achieve high levels of efficiency and effectiveness in integrating tax and customs processes, as is evident from the MUISCA model.

The important lesson Colombia is confirming for us is that we should not only focus on key issues such as technology, conceptualization and integration of tax processes, but also on other factors which have already been fully accepted as key success factors in the processes of deep change in tax administrations. These are: political commitment and support from the highest government authorities, by which I mean the vision and support from the President and Minister of Finance, who should trust the Institution and assure it management continuity as an essential requirement for the change process. Secondly, a team of high level professionals who are knowledgeable about tax matters but also fully committed to tax administration and the change process; and finally, adequate financial resources to undertake the great effort of change.

We believe that all of these success factors have been present at DIAN in Colombia and this lesson should be taken and learned by all of us. Currently, DIAN plays a very significant role in the whole process of peacemaking and social welfare, democratic governance and consolidation in Colombia; its performance and image have gone beyond the tax field into society, where it is a benchmark for other government institutions in terms of the right enforcement of regulations, while assuring equity and fairness. For this reason, no title for our Technical Conference would have been more fitting in defining this process than “Viable Tax Administration, Viable State”.

Finally, allow me to share with you a few personal feelings, arising from the fact that this is the last international meeting I have the honor of chairing as Executive Secretary of CIAT. As you are all aware, next January 2006 I will be transferring the position to the new Executive Secretary of CIAT, a distinguished professional who the Chairman of the Executive Council shall have the honor of introducing.

I believe that the end of my term closes another important period of growth and evolution in our dear CIAT's life. If we look back, we will see the long and difficult road leading us up to today; however, looking forward, we will see there are still many high mountains to be climbed and conquered. Thus, on the one hand, I step down with a deep sense of gratitude and enrichment from all the personal learning I have gathered over 29 years of serving at CIAT and, especially, for having met, worked and deserved the friendship of great professionals of the highest technical and human quality who taught me to work passionately for public and tax affairs.

INAUGURAL CEREMONY

In line with these thoughts, I cannot but mention my deep gratitude to the different Commissioners and colleagues from the US Internal Revenue Service, a country to which we owe not only our existence as an organization but also our recognition for having always been next to CIAT to support it and guide its management, in addition to having been an example of respect to the organization and its rules.

To Panama, the seat of our organization, which has welcomed us since the creation of CIAT 39 years ago, for having generously met all of its commitments as a seat country.

Likewise, my deep gratitude to all the Chairpersons and Council Members of CIAT with whom I had the honor of working and who trusted our work, which was our main motivation in carrying out our activities.

I also thank Spain, the State Agency of Tax Administration – AEAT – and the Institute of Tax Studies – IEF – for their invaluable support, friendship and commitment toward CIAT, the multiple activities of which have strengthened even further the firm cultural and blood ties between us. I would like to express my special recognition to France for its ongoing support and for keeping a standing mission at CIAT. Likewise, I owe deep gratitude to Italy, the Netherlands and Portugal for their invaluable support in sponsoring and organizing unforgettable Technical Conferences. We shall never forget the valuable support provided to CIAT by Germany over a 20-year period; I wish to tell you that we still hope you return to CIAT.

I wish to thank all our member countries for trusting us. You have been the driving force behind our work and services and our *raison d'être*.

Finally, I extend my greatest gratitude to my colleagues at the Executive Secretariat, a small team of giants, professionals from different nationalities, fully united by a service orientation, work spirit and commitment to the mission of our organization.

Likewise, I am stepping down with the satisfaction of having fulfilled my duty and devoted all my capacity, loyalty and absolute commitment to the organization and its mission.

I admit that I took many risks and challenges which were necessary to keep CIAT at the forefront of technology and knowledge, and the possibility of providing the required services to our member countries. I also admit that I made mistakes which have been duly capitalized and

became part of our know-how and expertise. Anyway, I am leaving with a sense of happiness and pride in our organization, which is known, respected and imitated in the tax world; hence our nomination to the Prince of Asturias award in the field of International Cooperation which, as you are aware, we were very close to winning. Securing this valued prize remains a pending task for my successor; I am sure he will soon achieve it.

I step down in the knowledge that, although plenty remains to be done, that does not only mean doing better that which we are already doing; rather, the great challenge will be understanding and adjusting promptly to the new environment and challenges arising in the third millennium, for which the sound ties of solidarity and mutual respect which have united us and characterized our organization will certainly be the foundations to face them successfully.

Today, our Colombian friends are offering us a new opportunity for this reunion with the tax administration *Family*, which will no doubt serve to renew and strengthen the ties of cooperation, solidarity and friendship which unite us – a core objective and CIAT's *raison d'être* both in the past and into the future.

In conclusion, I am pleased to announce that our Rapporteur General shall be Mr. Mario Aranguren, Former Director General of DIAN and an International Consultant with CIAT. It is also an honor for CIAT to announce the deserved tribute that our organization shall pay to important authorities of the Government of Colombia. The Vice President of the Republic, Dr. Francisco Santos and the Minister of Finance and Public Credit, Mr. Alberto Carrasquilla, have been unconditional pillars in the process of modernization and strengthening of the Colombian Tax Administration by their firm and determining support vis-à-vis the challenges faced by the organization; without them, today's turnaround would not have been possible.

Finally, once again I wish all of you a happy and fruitful stay in this beautiful city of Cartagena and hope that your professional enrichment derived from this meeting reaches further into your tax administrations.

Thank you.



CIAT TECHNICAL CONFERENCE
Cartagena, Colombia
September 26 - 29, 2005

TOPIC 1

**AWARENESS OF TAX ADMINISTRATION IMPORTANCE
AND ENVIRONMENT MANAGEMENT**

Lecture

TOPIC 1

AWARENESS OF TAX ADMINISTRATION IMPORTANCE AND ENVIRONMENT MANAGEMENT

Oscar Franco Charry

Director General

Tax and National Customs Directorate - DIAN
(Colombia)

CONTENTS: Introduction.- How to Define State Viability.- Main growth factors.- The economic model is not everything.- How to Define the Viability of a Tax Administration.- Political decision, autonomy and role clarity.- Flexibility and change.- Quality of information.- Control and service.- Voluntary Compliance: a Country's Shared Project.- Final Notes.

INTRODUCTION

“When you are part of a Tax Administration, you frequently and repeatedly hear phrases or speeches about its importance and strategic character within the State. However, more often than not, these words do not match the reality, or the political and economic support received by the Tax Administration from the Government, the Parliament and other State's actors.

TOPIC 1 (Colombia)

Actually, the viability of the State largely depends on the resources collected by the Tax Administration, and it is only this factor what makes it one of its most important bodies.”

Such were the words with which, jointly with CIAT, we drew the attention to the topic of this Conference. Deep down, among the objectives of the lectures starting today in Cartagena is the generation of a space to meditate upon the role, or the roles, played by the tax administration in our countries. Most of all, rather than an invitation to look for nice words, ideal or idealistic notions or projects from those we call “visionaries”, this appointment is intended to work on it; it is a good start that, in a first step, must at least provide a diagnosis of the reality.

It is not out of place to admit that we have all fallen for such dreams and nice words, and that most of our big change projects have fallen short of real and tangible results. We all think we know what has to be done – what the ideal tax system is, what the general notions of a good tax administration are, how control and service are balanced, etc.-, however, only in a very few cases do we have a full knowledge of the reality of the tax administration and the country.

HOW TO DEFINE STATE VIABILITY

When looking up for references to a “Viable State” or a “Viable Country”, most of them referred to two types of speech. The first one is the use of the term with the aim of defending or arguing the creation of a State, as is the case of Palestine. The second use was primarily for political aims; that is, the use of elegant and sophisticated words targeted at convincing the electorate that there is a better model than the current one. Curiously, there were not any acknowledged economic or academic references that would use the term (not even in English).

In view of this, and given the lack of investigations leading to a sort of “recipe” of a viable State or Country, two notions are worth resorting to, which may be useful to define it. The first one is the measurement performed by *Fondo para la Paz* (Peace Fund) and the magazine “Foreign Policy”, regarding “failed States”, and which was discussed a couple of months ago in our country. The second notion proposed for a general definition of the State’s viability is associated with generally accepted concepts of economic stability and growth, competitiveness and institutionalism.

These organizations claim:

“A State fails when the government loses physical control of its territory and lacks legitimate monopoly of the use of the force. Other symptoms of a failed State include the inability of an eroded authority to make collective decisions, the inability to provide reasonable public services and the loss of the ability to interact in formal relationships with other States, as a full member of the international community. As suggested by the list of 12 indicators, extensive corruption and criminal behavior, the inability to collect taxes or, similarly, to obtain the support of the citizenship, the forced displacement of the population, a sharp economic downturn, inequality in different groups and institutionalized persecution or discrimination, are other symptoms of failure¹.”

As you may imagine, a country having several of these factors with a negative grade is in difficulties, and in some cases the scenario will look distressing. The list is headed by countries such as the Ivory Coast, the Congo, Sudan and Irak. Colombia appears as the country having the largest problems in the region, and even though no Colombian share the grade received, we do have some alarming elements, especially as to violence and displacement.

However, it calls the attention that one of the indicators contemplated within the measurement is the capacity to collect taxes. It calls the attention for no other reason but because it is an issue of ultimate interest for us as tax administrators.

The second notion intended for giving a general definition of State viability is associated to generally accepted concepts. On the one hand, the estimations made by sociologists, humanists and politicologists in connection with the definition of a State, and on the other hand, the concepts of economic stability and growth, competitiveness and institutionalism, more related to the economists' perspective.

Resuming some notes from a study sponsored by the United Nation's Development Program regarding democracy in Latin America, the State is understood as “a group of social institutions and relationships (most of them enacted and supported by such state's legal system) that

¹ Taken from: <http://fundforpeace.web.cedant.com>, retrieved on July 15, 2005, at: <http://fundforpeace.web.cedant.com/programs/fsi/fsindicators.php>. Author's translation.

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normally penetrate and control the population and the territory geographically delimited by such group.²” Further developing such idea, the State can be said to consist of three dimensions: “It is a group of bureaucracies, a legal system and a collective identity focus for the inhabitants of its territory; these dimensions may be called, respectively, effectiveness, efficiency and State credibility.³”

This is a wide definition that, despite including the cited economic elements, goes further ahead and serves as an umbrella for issues such as democracy and the institutions. With the aim of achieving an approximate concept of what a Viable State is, the concept of competitiveness is developed more profoundly, in view that it well summarizes most economic issues. Also, some elements of the State are briefly mentioned, which go beyond the economic sphere, always trying to bear in mind the role of the tax administration within such aspects.

Lastly, the lecture concludes with an analysis of the relationship between a viable administration and a viable state, upon which it is realized that the key common element is “the country project”, that is, a shared long-term vision in which the administration’s responsibilities are born in mind and agreed upon, with the resulting continuity and support of the policies and actions needed for its success.

Main Growth Factors

Practically all the countries in the world have scheduled actions targeted at reducing the fiscal deficit, reducing or maintaining low levels of inflation, maintaining competitive interest rates, curbing unemployment, raising social security coverage and sustainability, improving the trade balance and, in general, achieving growth and development of the economy.

In fact, economic policies are not only essential and our daily bread, but they also generally constitute the first or the main priority of any government in office. However, the macroeconomic policy in itself is not able to transform or yield the results required by most of our

² O’ Donnell, Guillermo. Notes on democracy in Latin America, in: United Nation’s Development Program, *Democracy in Latin America: towards a democracy of citizens*. – 2nd. ed. - Buenos Aires: Aguilar, Altea, Taurus, Alfaguara, 2004.

³ Ibidem.

countries. Moreover, not even the government itself is able to carry out this task. Therefore, we need to think of our countries in an integral fashion, as a group of actors, policies, traditions and visions headed for an uncertain future.

The reason why I embrace the concept of competitiveness of nations as a better way to define the general elements that make a State viable, is because, on the one hand, it incorporates the macroeconomic notions previously mentioned, and on the other hand, it supplements corporate and infrastructure aspects relevant for any country's growth.

Competitiveness

Competitiveness experts believe that this concept “analyzes nations and companies managing all their competencies to achieve prosperity and profitability.”⁴ In this sense, “an economy is more competitive when the environment of operating companies leads to a sustained growth of the productivity and per capita income levels. The quest for competitiveness in a global economy forces countries to create better conditions for the development of companies than those they would create for their own income levels⁵.”

That environment is analyzed and published in the Yearly Report on Competitiveness⁶. Diverse factors are studied that may be summarized in: economic performance, government's efficiency, corporate efficiency and infrastructure.

According to the results obtained, tax administrations have high impact levels on several of these factors (tax collection and, therefore, State's revenues), as well as the administration's management itself (mainly control and service). The most outstanding result with the highest impact on economic factors (local economy and government performance) is tax collection. This directly affects factors such as national accounts, indebtedness levels and, on the whole, public finances.

⁴ Garelli, Stéphane (2005). Competitiveness of nations: the fundamentals [electronic version], IMD world competitiveness yearbook 2005. Retrieved on July 15, from <http://www02.imd.ch/wcc/fundamentals/> . Author's translation.

⁵ Competitiveness: growth's prime mover. Interamerican Bank of Development, 2001.

⁶ Capp, Joe, Elstrodt, Heinz-Peter & Jones Jr., William B. Reining in Brazil's informal economy, *The McKinsey Quarterly*, January 2005, retrieved on March 4, 2005 from <http://www.mckinseyquarterly.com>

TOPIC 1 (Colombia)

On the other hand, the ability of an [customs and tax] administration to facilitate foreign trade operations may be a decisive factor not only for the exports volume – pursuant to the foreign trade policies defined by other governmental branches –, but also for investment decisions.

Table: Main criteria of competitiveness assessment

<ul style="list-style-type: none"> ▪ Economic performance - Local Economy <ul style="list-style-type: none"> ▪ Size ▪ Growth ▪ Wealth ▪ Projections - International Trade - Foreign investment <ul style="list-style-type: none"> ▪ Investment ▪ Finances - Employment - Prices 	<ul style="list-style-type: none"> ▪ Corporate efficiency - Corporate efficiency - Labor market <ul style="list-style-type: none"> ▪ Costs ▪ Relationships ▪ Availability of skills - Finances <ul style="list-style-type: none"> ▪ Banking efficiency ▪ Stock market efficiency ▪ Finance management - Administrative Practice - Values and attitudes
<ul style="list-style-type: none"> ▪ Government's efficiency - Public finances - Fiscal policy - Institutional frame <ul style="list-style-type: none"> ▪ Central bank ▪ State's efficiency - Corporate legislation <ul style="list-style-type: none"> ▪ Openness ▪ Competition and regulation ▪ Labor legislation (regulation) - Social frame 	<ul style="list-style-type: none"> ▪ Infrastructure - Basic infrastructure - Technological infrastructure - Scientific infrastructure - Health and environment - Education
<p>Note: highlighted terms are the factors upon which a tax administration is incidental, both in terms of results and management at large. Source: Garelli (2005)</p>	

A third factor of administrations in connection with competitiveness is that related to the legal security, or in other words, the stability of game rules. This factor, together with the facilitation of foreign trade operations, infrastructure, interest rates – associated to the country risk – and the labor legislation, are the key elements contemplated by investors when making their investment decisions.

Put it differently, these indicators may be set as ideal actions targeted at making a nation more competitive (see table below). We can note how the administration has a high impact on these actions.

10 key factors of competitiveness

- I. To create a stable and predictable legislative environment.**
- II. To develop a flexible and sound economic structure.
- III. To invest in technological and traditional infrastructure.
- IV. To foster private savings and local investment.
- V. To develop aggressiveness in international markets, as well as an appealing environment for foreign investment.**
- VI. To focus on quality, quickness and transparency of government and the public administration.**
- VII. To maintain [adequate] relationships among salary levels, productivity and taxes.**
- VIII. To preserve the social fabric by reducing salary inequality and strengthening the middle class.
- IX. To invest strongly in education, especially at the secondary study level, and in the permanent training of the labor force.
- X. To balance the proximity and global economies to ensure the creation of a substantial wealth, while preserving value systems required by the citizenship.

Note: highlighted terms are the factors upon which a tax administration is incidental, both in terms of results and management at large.

Source: Garelli (2005)

Later, we will resume some of these proposals as part of the analysis of the Viable State-viable administration relationship.

Informal economy

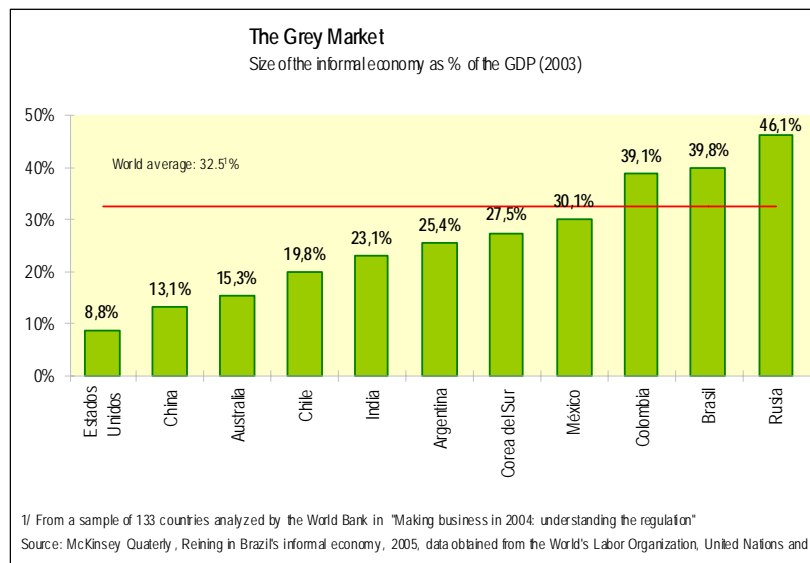
One of the factors that probably best reflects an economy's competitiveness is the size of the informal economy. I dare to say this in view that the informal economy is usually the result of a combination of a great number of economic factors; that is, it is not self-emerging. The informal economy is generated or increased in countries having employment difficulties, where tax laws and systems discourage loyal competition, either because they hinder the creation or operation of companies, or because the profitability from the informal activity is much higher than that of the formal one, with high levels of smuggling, and a culture that paves the way for the settlement and nourishment of informality; to mention only some of the reasons.

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Nearly all these elements are incidental on the indicators or concepts reviewed when assessing and comparing the competitiveness of nations; and hence, informality is a negative indicator thereof.

According to a study from an international consulting firm¹, the reason why Brazil is not growing at higher levels can be attributed to the informal economy. In fact, it is estimated that Brazil could grow 1.5 additional points, if it was not for these high levels of informality. In general, the informal economy is blamed for the limitations on productivity and investment discouragement.

In the case of Brazil, this item of the economy accounts for 40% of the Domestic Product, thus being, together with Colombia, one of the countries recording highest levels of informality. In essence, the informality consists of companies and persons that operate partially or totally outside the law, evading, overlooking quality or sanitary norms of products, violating intellectual property rights and even omitting to register their economic activities with the competent authorities. Thus, they profit in terms of costs and compete successfully against their counterparts who do operate legally, and in many cases recording even lower productivity levels. On the other hand, legal companies lose profits and market share and end up lacking the means and incentives to reinvest in productivity, for example, expanding installed capacity, installing new technologies and in general improving the organization.

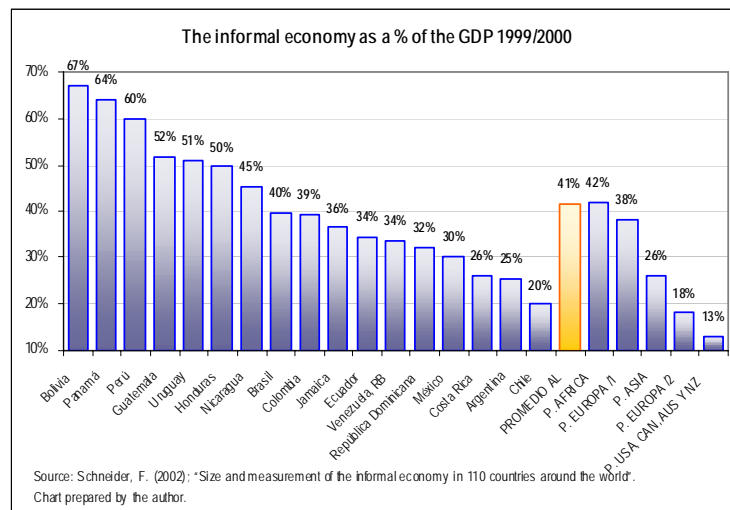


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The informality varies by sector. For example, books and records are a sector globally affected and mostly affected by piracy. The informality is incentivated when there are higher taxes or controls levied upon a certain sector, and in some cases there are organized networks aimed at avoiding the authorities or profiting from certain advantages or loopholes in the legislation.

The 32.5% figure estimation of the average size of informality within a sample of 133 analyzed countries is quite disquieting. And likewise concerning are the high levels of this phenomenon in Latin American countries: 40% in Brazil, 39% in Colombia, 30% in Mexico, 25% in Argentina and 20% in Chile, a country that is in many cases is regarded as a role model for other Latin American countries.

The study concludes that informality is encouraged by three factors: certain social and demographic trends – such as a deeply-rooted illegal culture or the generally accepted acquisition of piracy products–, the high cost of formality– in general attributable to tax burdens, including social security – and a weak ability [of the State] to enforce the laws.



A wider sample of countries⁷ shows that 58% of the analyzed countries – 63 countries in South America, Africa and Western Europe – record an informal economy average of over 40% of the GDP. In line with the other cited study, this is a global problem and very few countries record low or “controlled” informality levels.

⁷ Schneider, F. (2002); “Size and measurement of the informal economy in 110 countries around the world.” Retrieved on July 15, from http://rru.worldbank.org/Documents/PapersLinks/informal_economy.pdf

The Economic Model Is Not Everything

Even though the concept of competitiveness is more integral than the traditional economic vision, it does not include the totality of elements considered to make a country viable. In particular, there are four factors that I would like to mention briefly, especially the first two, which have been increasingly attracting the attention of the world community.

The institutions

In the first place, the institutions – regarded as those settled major social agreements or behaviors from which a society can profit – are increasingly acknowledged as essential factors for the development and growth of nations. The respect for the law, the rules and practices of the political system (the representation and public control) and the trust are some of the examples of “institutions” that go beyond the formal or state aspects. In many cases, the social institution is directly associated to a public establishment or “institution”, as is the case with electoral authorities and the political system; however, this is a wider concept.

In this sense, “the most important institutions in terms of development are those that ensure individuals and companies that they can profit from their productive efforts and so they are consequentially willing to invest in education, technology and physical capital. This conveys the protection of property rights, the respect for the law and contractual commitments, and the absence of corruption.”⁸

Going back for a little while to the ideas previously argued in relation to the high levels of the informal economy in our [Latin American] countries, we find that there is an almost direct relationship between the respect and consolidation of institutions, and the existing culture of formality – or informality. This example illustrates that not only the economic factors but also the tax burdens as well affect a State’s viability. If a country has such drainage as that represented by a high level of the informal economy, its chances to grow and develop are constrained.

The democratic model

“It is not perfect, but it is the least bad of models,” is a phrase somewhat frequently heard when referring to a democracy as a government model. This factor may be included as part of the institutions referred above; nevertheless, its relevance is worth giving a special consideration.

⁸ Development beyond the Economy; Interamerican Bank of Development, 2000.

On the whole, the interest for the implementation and strengthening of the democratic model is associated to the possibility to access the main governmental positions (except for the judicial branch, the armed forces and possibly the central banks) by means of clean elections. By clean elections are referred those competitive, free, igualitarian, decisive and inclusive elections, and in which voters are the same persons entitled to be elected⁹.

The democratic system “is the result of an institutionalized and legally enacted collective bet. The participating rights related to the elections, as well as the surrounding freedoms, are allocated based upon a limited universalism of the inhabitants of the territory comprised by the state in question.”

“Based thereupon, the states and its spokespersons affirm that they serve the common welfare or the general interest of a nation construed homogeneously, and for which they, as well as the population at large, are demanded to prioritize their loyalties.¹⁰”

Hence, democracy is the institution that best represents equal opportunities, both in terms of the chances to access power and of the responsibility assumed by the democratic representatives before their voters. It is an institution that represents freedom, as well as a collective consensus intended for achieving common welfare.

For example, in the case of Colombia, the issue of security is associated to democracy, largely due to the local situation undergone by the country over many years. The interpretation of security as a national priority – “the national feeling”, to put it in more elegant words– may be considered a clear example of democratic representation. It is one of the policies having the largest popular support nowadays, and may be considered to a certain extent the most solid of State policies, without disregarding the fact that the current President, Mr. Álvaro Uribe, has been elected mostly because of said policy.

⁹ O’ Donnell, Guillermo. Notes on democracy in Latin America: United Nation’s Development Program: *Democracy in Latin America: towards a democracy of citizens*. – 2nd ed. - Buenos Aires: Aguilar, Altea, Taurus, Alfaguara, 2004.

¹⁰ Ibidem.

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The definition of such policy by the Colombian government well illustrates the issue:

*“The Democratic Defense and Security Policy is the frame document whereby the National Government outlines the basic guidelines of Democratic Security, intended to protect the rights of Colombians, and to strengthen, with the aid of the citizenship, the Government of Laws and the democratic authority, wherever they may be threatened. The Democratic Defense and Security Policy is a long-term State policy, to be developed in coordination with all the Government’s entities and other power branches. The genuine security depends not only on the ability of the Public Force to exercise the coercive power of the State, but also on the ability of the judicial branch to guarantee a prompt and fulfilled administration of justice, of the Government to meet the constitutional responsibilities, and of the Congress to provide laws that contemplate security as the ultimate common welfare for the entire society.”*¹¹ [Highlighted outside text]

Nowadays, the development and consolidation of the democratic model is one of the major global concerns. This includes from financing projects of democratic consolidation and participating mechanisms, to intervention actions intended to establish the model. In Latin America we speak of the first type of actions, which are generally associated to changes in the national political culture.

Demography and geography

An investigation conducted by the Interamerican Development Bank on the development of Latin American countries, puts forward the importance of considering some factors different from the economic ones, as determining factors for analyzing development. By “development”, they not only understand the economic progress, but also the human development and the ability of cohabitation in a society¹²”, and consider demography, geography and the institutions (the latter already dealt with in previous paragraphs) as influential structural factors.

¹¹ *Democratic Defense and Security Policy*. Presidency of the Republic – Ministry of National Defense, Republic of Colombia, 2003. Retrieved from http://www.presidencia.gov.co/documentos/seguridad_democratica.pdf, July 15, 2005.

¹² Development beyond the Economy, Interamerican Bank of Development, 2000.

As for the demographic issue, it considers the investigation - from the vision of the demographic effects on development put forward by Thomas Malthus, since the end of the XVIII Century- that has prevailed regarding the controversy of whether the demographic growth is a favorable or a contrary factor for the sustainable expansion of the supply (of all types of goods). The only clear thing on this regard is that the relationship between the economic growth and the population growth is influenced by a great number of factors¹³, and must be considered among the elements of analysis in connection with the State viability.

The IDB puts forward some considerations regarding this issue, as follows:

“This discussion [about demographic growth] has diverted the thought of the economists and other social scientists from the study of a much more significant association between demography and development, which has only recently started to be highlighted. The most important association seems to be given not by the size or the rate of the population growth, but by its composition. The economic theories of life cycle provide an explanation. The consumption needs of children and the elderly exceed their productive capacity, while the opposite happens with people in their middle ages. Hence, the savings and investment capacity in physical and human capital of any society will depend on the composition of its population. Therefore, growth will be higher in societies having a population of intermediate age predominance, and lower in very young or very old societies. The population’s composition will also influence the fiscal capacity of governments, the size and composition of public spending and many other economic and social variables ...¹⁴”

¹³ Ibidem.

¹⁴ Ibidem.

Also, it establishes geography as a second determining factor:

“A series of empirical studies (ADB, 1997; Bloom and Sachs, 1998; Gallup, 1998; Gallup, Sachs and Mellinger 1999) have overwhelmingly shown that income levels and growth rates of countries are associated to diverse natural, as well as created geographic conditions. The influence of geography operates through the health conditions, the land productivity, the availability of natural resources, the transportation costs and the economies formed upon agglomeration and market size¹⁵”

As mentioned throughout this chapter, the IBD's observations support even more the complexity of establishing a recipe for a “viable State”. The reality is that there exist a multiplicity of factors, that the priorities and conditions of each country must be weighted in each case, intended for assessing such factors, and that among the factors, the viability of the tax administration may be considered essential for all cases.

HOW TO DEFINE THE VIABILITY OF A TAX ADMINISTRATION

In the first place, it is necessary to know that the viability of a tax administration is directly related to the viability of the country. A context of political instability, forced displacement of the population, lack of respect for the institutions, corruption, etc., will hardly be changed only by means of a sound or “viable” tax administration. In this sense, the viability of nations and that of administrations are closely linked, and are part of a circle that may prove virtuous or vicious, as per the case.

But taking into account the context of our countries, which are under development and with relatively stable conditions, and considered “average” within the international context, the viability and the role of the tax administration become critical factors for the success of the State's viability.

The review of the factors that turn an administration viable has been a recurring issue at CIAT's Conferences and Seminars. Most of the factors, if not all, dealt with below have been analyzed or discussed

¹⁵ Ibidem.

previously at seminars, conferences and other spaces intended therefor.

Of the factors under review, we may say that they all share a common element: most of them are actions “to be implemented”, or desired changes that to a certain point have been implemented. The level of development of these factors in the administrations differ, with some general references such as the Spanish Tax Agency, the American Internal Revenue Service or the Revenue Agency of Canada, or regarding some issues in particular, such as the treatment of benchmark prices in the Argentine AFIP, or the taxpayer’s service and electronic tax return in Chile. What is true is that non of these administrations have fully completed their tasks, and probably will never do.

However, there is a determining factor that is always “over our heads”, and without which the cited change and development processes cannot be carried out: **the current situation**. The results obtained by the administration in the short tem open the door for the medium and long-term projects, and only to the extent that a management is considered successful today, the rest of the actions are given a short pause, actions which, according to the speech, are said to have a larger impact and sustainability.

Political Decision, Autonomy and Role Clarity

Unless there is support from the government and the institutions and the actors involved in the fiscal context, it is impossible to move forward with the changes and developments required by a Tax Administration. It is essential to have a political commitment of moving ahead with the administration’s actions, whether they are related to their operation or change projects.

Rather than further theorizing on this aspect, the Colombian case may be used as an example. As it will be seen in more detail in other lectures given by the Colombian administration, Colombia has undertaken an important transformation process of its tax administration. This has required the unlimited support of many actors within the Government, mainly that of the President of the Republic and the Finance Minister, who, by means of the allocation of additional resources, the approval and the support of the MUISCA project and the entity’s political armor, have allowed the evolution of the administration within the proposed process.

Flexibility and change

Tax administrations not only evolve slowly, but there are also cases in which they refrain the evolution of the tax system itself. However, one of the ideal conditions to improve the viability of the administration is to become a flexible organization, prepared for change.

The reality in most of our countries is that the political and legal conditions are constantly changing; daily tax reforms, frequent ministerial and executive changes, and economic and trade circumstances that require to review our actions, procedures and beliefs on a daily basis.

In this sense, administrations have the obligation to generate change and flexibility cultures that may allow to quickly repond to each one of the new challenges. In particular, it is interesting to assess the pace and the capacity to adapt and change of some of the actors related to the tax administration.

The major capacity to adapt and change may be classified as follows:		
Organization	Adapting and reacting to change	Time
Small-sized company	Quick	Few months
Big-sized company	Moderate	Some months
Multinational company	Slow	Months to years
International body	Very slow	Years
Public institution	Very slow	Years
Criminals, tax evaders and smugglers	Very quick	Hours (if necessary)

What calls the attention most from the above table is that those who should be most controlled have high adaptation levels; this is why the tax administration should be as quick as or quicker than the persons that it intends to serve and control. Criminal organizations have the highest capacity, which by means of a pen stroke, two computers and a new identification number are able to rearrange themselves upon perceiving that the administration is on their heels. Meanwhile,

as most public entities, the administration is hindered by the existing regulation, internal policies, and in most of the cases, a culture of change aversion.

In general, the challenge for the administration is to make that the speed of internal changes exceed that of external changes, so that it may adequately treat the behavior of those who are served and controlled by it, as well as to other actors interested in its management and performance (e.g. the government, ministries, control bodies, etc.).

Organization

One of the main organizational changes faced by administrations in the last 20 years has been the creation of offices or groups specialized in the assistance and control of large taxpayers. This layout has sought to strengthen the actions of the administration in connection with a few taxpayers that pay, or to serve as intermediaries in 60% or more of tax revenues; that is, the Pareto's concept has been applied, intended for optimizing the use of resources.

However, all other actions and organizational charts have essentially responded to the functional approach, upon which the units are created according to functions such as tax revenues, examination and collection, or are adopted as per even wider issues, such as taxes, customs or social security. These charts have proven little advantage for administrations, and at least one big disadvantage: the fragmentation and isolation of actions, or, in other words, the absence of an integral and integrating vision both for the administrative management and for the profile and treatment of taxpayers, and taxpayers' segments (e.g. production chains).

The internal organization must support in some way the strategy and the actions of the administration. For example, according to the previous explanation, the organization must be able to respond to the flexibility and change of actions of controlled persons, or of services to be rendered in general to taxpayers.

The debate over approaches such as the sector-based or the process-based approaches must be sorted out by means of deep analyses, tests or strict evaluations. However, it is worth highlighting the importance of acknowledging that the organizational charts of administrations require a permanent revision and adjustment, and that

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it will be very difficult to respond to the challenges imposed by the world, regional and local context if they are to be faced with organizational charts that have remained more than necessary and unchanged for a long time.

People

The persons and the information used by the administration to perform its activities will be the two most important assets for achieving a good performance. In this sense, the people must be qualified to be able to respond to the administration's challenges. The titles or the technical knowledge are not enough; without learning and renovation skills, sound values and the ability to change permanently, any officer will find it difficult to remain useful and profitable for a long time within the administration.

This is why administrations should try to implement integral human development systems that allow them to approach all the fundamental components of the staff, among others:

- Highly demanding, merit-based selection process.
- Remuneration based on responsibilities and impact [of the organization and the person].
- Unemployment bonus.
- Permanent update and training based upon the organization's objectives.
- Strict evaluation processes.
- Mobility of flexible personnel, but according to the organization's profiles and needs.

As administrations achieve a better quality of their staff, they are more likely to improve quality of their actions, whether they are service or control actions.

Quality of information

As mentioned before, the information, together with the people, is the most important asset in an administration. Information allows an adequate assistance, and also increases the chances of detection, improves risk analyses and provides basic tools to perform an effective – formal or substantive – control.

The big problem faced by the administrations has been the quantity and quality of information available to operate. It is clear that in order to have good selection criteria, the largest possible amount of information from taxpayers is needed. As this information can be crossed and validated with the taxpayer, the administration can detect unlawful or high-risk behaviors, intended for reviewing and focus efforts in the best way.

Likewise, taxpayers expect, at least, to have the information on their statement of account, and thus know with certainty that they are in good standing and terms with the administration and the State.

Census

One of the milestones of the administration's information is taxpayers census. Knowing with certainty not only the basic identification data, but also the location, the economic activity and the responsibilities before the public treasury, is the back bone of all actions rendered from the administration to the taxpayers.

As one of the first tools of MUISCA, the Colombian administration has implemented the new single tax registry (RUT, in the Spanish acronym), which has focused on obtaining, among others, the following results:

- To manage all customers (taxpayers) in the best way and integrally, regardless of whether they have tax, customs or exchange-related obligations.
- To allow the correct and timely identification, location and classification of the entity's information regarding customers, while generating risks on the attempts to substitute identities and provide false domiciles; and in general, to protect the genuine identification of customers.
- To ensure a high reliability of the economic activity developed and reported by each taxpayer, intended to establish with certainty the minimum tax levels associated to each of them, facilitate the generation of statistics and improve the management of the State's socioeconomic policies.
- To define each of the tax responsibilities imposed on taxpayers, allowing the tax administration to exercise a better control and to facilitate the compliance of obligations and the exercise of rights of taxpayers or users.

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- To avoid the diligence of excessive, costly and little unified diligence formats, thus saving costs for customers.
- To facilitate governmental and even private entities consultation of RUT's information, directly on line with the DIAN.
- To contribute to a service culture improvement of contribution's employees.
- To remove the multiplicity of registries, such as the Tax Registry, the National Registry of Vendors and the National Registry of Goods and Service Exporters, and to incorporate the Registry of Customs Users authorized by the Office of National Taxes and Customs.

From there, and taking advantage of technological developments, the administration can improve basic activities such as detection and notice of omissions, disclosure and information campaigns and detection of high-risk conducts – such as dissolution and creation of corporations intended to evade obligations.

Most relevant of the new RUT approach is not the use of technological tools, which may well help to speed up and facilitate diligence or execute validation actions to a certain extent, but rather the importance given to the quality of information in it. Both the aids and validations, and in general the technology, have focused on ensuring a good quality of census information.

Technology

As illustrated by the census, the challenge with technology is to take advantage of it with a view to performing as many operations as possible in an automatized fashion, and at the same time allowing officers to go to the streets, where they can find the information, the environment and the data of reality that systems are devoid of.

In this sense, the administration must have reliable information, with a qualified and sustainable support apt to strengthen management, automatize routine and mass tasks intended for increasing coverage, becoming more timely and improving service, and from which officers may learn in detail about customers, in order to serve and control them, and to increase tax revenues and curb evasion and smuggling.

This requires the development of an IT infrastructure within the frame of modern design construction and implementation techniques; and that may be flexible, parameterized and in compliance with the following principles:

- Responsible administration.
- Decentralized administration of management.
- Centralized administration of information.
- Interrelated administration.
- Interactive administration.
- Citizen service administration.
- Efficient administration.

Once again, general concepts such as flexibility and quality stand out as essential parameters of the administration's actions. With this in mind, it should be pointed out that even though the implementation of technological tools in the administrations may have a great and positive impact on management, the criteria underlying the IT project must always deserve attention (e.g. to improve the quality and timeliness of processes, increase flexibility of the organization, integrate vision and taxpayer treatment, etc.).

Control and service

One of the topics of discussion in the last years at tax administrations has been the balance between service and control. The strategy depends on each administration and each context, but the consensus is that service must be significantly developed and focused on facilitation. In fact, several conferences and meetings at the CIAT have been devoted to analyzing this issue in depth. For instance, during the opening speech at the 2001 conference, the Finance Minister of Spain argued:

“The topic chosen for this conference, “Citizen-oriented Administration”, supplements the issues regarding control of compliance with tax obligations, developed at the Assembly in Chile, held this year, and reflects one of the main trends in the future of tax organizations. At the beginning of the XXI Century, tax administrations are faced with new challenges related to globalization and the advancement of new technologies. In this context, a new management model of public affairs opens up, which is supported by an efficient organization that is near the needs of citizens.

And this last Tax Administration model is the outcome of an evolution that, following the guidelines developed in the private sector, turns from a procedure-oriented organization into a

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customer-oriented organization. An organization is oriented to taxpayers not only because its declaration of principles establishes that its main objective is to collect taxes while seeking voluntary compliance. It is necessary, in addition, that such declaration be materialized with the design of an organizational structure intended to adapt to and be near the taxpayers, in order to provide them with assistance and education, to respect all their rights, to look for the maximum possible easiness of tax norms and procedures; and finally, to give the right importance to the programs for quality and operation improvement.

In any case, we cannot forget that strengthening taxpayers' service and information does not entail overlooking the need to achieve the best effectiveness in applying tax controls. The mission against tax fraud is a prioritized objective of our organizations, and demands the highest efforts and the use of modern technologies for taxpayers' selection and examination.¹⁶ ”

These ideas remain in force, and the plans, projects and actions to implement them are also part of the priorities of all administrations.

Control as a service

The incorporation of quality concepts in the management of our organizations entails, among other aspects, the evaluation and enlargement of the concept of “customer” or beneficiary of our service. In addition to the apparent direct relationship between the administration and taxpayers, it is worth pointing out at the importance of considering the society at large as a customer of the administration.

There is a question that clearly illustrates this aspect: what customer is the examination target? If we believe that customer's “needs are to be satisfied”, then the examined person will not be a customer of the administration, because being controlled or corrected in his/her obligations will not be a “need” for him/her. He/she will be more interested in the compliance with norms, in the fair and timely application thereof and in the opportunity of having a due process.

In this sense, control must not be regarded only as a behavior correction tool, but rather the concept need to be widened and consider that control

¹⁶ “Citizen-oriented Tax Administration”, 2003. CIAT's Technical Conference, Sevilla 2001. Published by Instituto de Estudios Fiscales.

has other “customers”: all the persons that are in compliance. Thus, control is a service rendered by the administration to the society, targeted at promoting loyal competition, safeguarding commercial interests and policies (such as compliance with quotas, restrictions or sanitary regulations in the case of customs), and contributing to equity somehow.

Facilitation

Facilitation is directly associated with competitiveness, both in terms of collection cost reduction and compliance, and the removal of obstacles for foreign trade, in the case of customs.

In general, public institutions do not hide from the modern citizen, who demands more and better products and services “at lower prices”. In the case of the administration, this means safeguarding the strict compliance with effective regulations, and requires an integral strategy. In the case of the DIAN, and as an example, this strategy has been outlined in the following way:

Re-orientation of the entity towards service.

First of all, the processes and procedures of assistance and service must be generated. Likewise, a service attitude of officers must be trained and encouraged, as well as a physical or virtual infrastructure needed to support such service.

This calls for aligning staff selection with the skills and knowledge required to render adequate services, as well as emphasizing the instruction and development of officers having the right potential.

Therefore, in order to strengthen service culture and to make it prevail as the organization’s approach, it is necessary to align the human management system with a general strategy, and in particular with the service strategy. This requires prioritizing officers’ profiles, selection, evaluation and compensation system in order to guarantee that the best officers are placed in critical areas, so that actions and changes are implemented successfully. Areas in which the interaction with the customer and service prevail.

For such purposes, the reform of the administrative career and the internal reorganization become the ideal means to be approached from this perspective.

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In general, services must be provided in a way that facilitates the tasks of those who fulfill their obligations. This is possible to the extent that the administration investigates and innovates with new service models and means, which added to the development of control tools, may guarantee maximization of tax revenues. Means that facilitate the diligence of forms, deliver an adequate and timely assistance, enlarge channels and possibilities of customers to perform their diligence and comply with their obligations.

Increase of customer's level of satisfaction.

The maximization of tax revenues is not only achievable by means of control over customers. It is necessary to foster the rendering and facilitation of a better service, associated to the fulfillment of obligations. These two strategies are associated to the possibilities of maximizing tax revenues in the medium and long term, and are the alternatives that allow to achieve a larger sustainable tax revenue, without resorting to new tax reforms.

Nowadays, DIAN's customers claim to be unsatisfied with the provision of tax and customs services, that is, the mechanisms for facilitating compliance with obligations and the services associated to foreign trade. Also, this feeling stems from the undue or excessive application of control, which generates difficulties in the operation of companies or unpredicted additional costs.

For all this, the DIAN is to look for the means whereby customers may feel that their compliance with obligations is fair, objective, timely and transparent, and may therefore feel more satisfied with the work performed by our tax, customs and exchange administrations.

Building of trust, credibility and image improvement.

This transversal objective is closely linked to the re-orientation towards service. A better image is possible not only by exercising control and punishing non-performers. The United States' model has been one of the first among tax administrations in realizing the importance of service, and the need to strike an adequate balance so that fear would not be the only factor for compliance.

In this same sense, the provision of a good service generates trust, credibility and a better image.

VOLUNTARY COMPLIANCE: A COUNTRY'S SHARED PROJECT

For most administrations, over 80% of collected revenues come from voluntary (or induced) compliance of taxpayers' obligations. Also, tax payment is one of the main moments in which citizens are in contact with the State. The outcome of this transaction is essential to determine the present and future attitude of citizens regarding their contributive responsibility and their perception of the State.

However, the strengthening of a compliance culture is not achieved through isolated actions or specific programs. It is not the result of mass publication campaigns only, nor is the outcome of an induced risk perception, or the result of administration's actions. A sound and long-term voluntary compliance culture is achieved when it becomes a project shared by the whole country and the entirety of its actors. This implies both supporting and reaching all actions that the administration can and must develop as a fundamental actor for this purpose, as well as supporting such other actions that actors such as the government, the judicial branch and the society itself must perform with the same aim.

Therefore, we believe that the relationship between a viable State and a viable Administration takes place when such project exists that is shared by the country, which, among other aspects, implies that:

- there is a long-term project, a fiscal and strategic frame of the tax administration embraced by everyone;
- required cultural changes are produced for sustainability. High levels of voluntary compliance are achieved;
- adequate tax collection levels are achieved, and the tax evasion gap is reduced significantly. As a result, the financing of projects is adequate and macro-economic goals are fulfilled;
- thanks to a good administration, it is possible to administer almost any tax and implement rates and simple, reasonable and competitive procedures within the regional and international context.

The strengthening of a culture of service and facilitation to the inside of administrations can be regarded as an essential step towards such purpose. Without the adequate tools to facilitate, motivate and support the great majority of citizens and business persons that have remained in good standing, a compliance culture will hardly be sustainable.

FINAL NOTES

To conclude this lecture, some notes are developed that are considered important for the Colombian case.

Impact of the tax administration on the development plan (*Colombian case*)

As it was put forward throughout the lecture, the impact of the administration's management goes beyond the revenues and the fulfillment of tax collection goals. One way of visualizing this is by means of the evaluation of the impact of the administration on the Government's development plan.

Main Challenges and Strategies of the Colombian Government's Development Plan Impacted by the Tax Administration.

Democratic security	Economic growth and employment generation
<p>Big challenges ... To achieve a real and credible deterrence capacity .</p> <p>Strategies ... To fight drug traffic and organized crime.</p>	<p>Big challenges ... To increase trust.</p> <p>Strategies ... Short Term: Reactivation of ATPA and foreign trade. Employment generation. Long Term: Security and Adjustment Competitiveness.</p>
To increase transparency and efficiency of the State	To build social equity
<p>Big challenges ... Gradual and permanent policy of public administration modernization and management . Institutional re-design: To rationalize the size of the State. To attain efficiency and quality. To release resources for reinvestment . To re-legitimate the State.</p> <p>Strategies ... Renovation of the public administration. Vertical reform (shor term). Transversal reform (long term).</p>	<p>Main strategies ... Development of <i>Mypimes</i></p>

Several elements may be noted from the Colombian example:

- None of the objectives or strategies formulate “to attain an optimum tax collection to justify spending”; however, this is understood as a tacit and irrefutable objective. This is common to most governmental policies and strategies, that is, the importance of the administration task is implied, but no express commitments are formulated other than the establishment of goals.
- The control over borders [when the administration is also customs-related] and the use of information to detect criminal behavior are part of the responsibilities of the administration, associated to security and institutional order.
- As mentioned in other paragraphs, the scope of the administration beyond tax revenues impacted other aspects, such as loyal competition, competitiveness and even security.

How to curve the gap between knowing what has to be done and doing it

As it has been said, many of the elements developed throughout this lecture have been dealt more deeply and comprehensively by other authors and also at other conferences and meetings of CIAT. The main contribution of Colombia’s DIAN to the transformation project has been the completeness of its vision and development.

However, there is an additional element worth mentioning. In one way or another, most administrations have accepted the concepts formulated and have even undertaken projects with the aim of implementing them. It could be said that “administrations know what has to be done”, regarding the enhancement and approach of their work. Nevertheless, it is difficult for all of them to implement the concepts and to achieve significant results thereof. Many times, what starts well ends half the way through or with an approach different from the “ideal” or “theoretical” one envisaged initially.

To shed some light on this conundrum, professors Pfeffer and Sutton¹⁷, who have studied this knowing-doing gap, have put forward 8 actions that are summarized below:

- To establish **why before how**: philosophy is important.
- Knowledge comes from **doing** and teaching others how to do it.

¹⁷ Pfeffer, Jeffrey & Sutton, Robert. The Knowing Doing Gap, how smart companies turn knowledge into action, Harvard Business School Press, 2000.

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- **The action is more valuable** than elegant plans and concepts.
- There is not any way of “doing” without **making mistakes**. But, what is your answer (and that of the organization)?
- Fear [of change] promotes the gap between *saying* and *doing*, so **rule out fear**.
- Be alert of false analogies: **fight against the competition**, not against your peers.
- **Measure what really matters** and what can help translate knowledge into action.
- **What leaders do** (executives) – how they spend their time and allocate resources – **matters**.

Case study

TOPIC 1.1

GOVERNMENT POLICY, POSITIONING AND SUPPORT

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Secretariat of Federal Revenue

(Brazil)

CONTENTS: 1. Introduction.- 2. Government Policy: the Tax System and the Development Policy in Brazil.- Revenue-Raising Measures.- Export Incentives.- Recent changes in the Brazilian tax system aimed at stimulating long-term social and economic development.- 3. Tax Administration and Management of the Environment: Positioning and Support.- Mission.- Need for change and support (strategic recognition).- Changes in 1995-2005.- Other issues relative to follow-up and support: autonomy and outsourcing.- 4. Conclusion.- Annex: Composition of Brazilian tax burden by tax (2004).

1. INTRODUCTION

This paper addresses two broad and interrelated topics: on the one hand, the need for a good fit between a nation's tax system and its social and economic development plan, and, on the other, the way in which a tax administration should adapt to changes in the external environment. In other words, we seek to understand to what an extent the tax system is modified to serve long-term macroeconomic policies and how those changes may influence or modify the performance of the tax

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administration. In addition, we intend to explore the types of support or mechanisms necessary to allow the tax administration to face the said changes.

To begin with, it is worth noting that modern taxation consists of a set of rules that are applied on the economic system of a country. The tax system reflects the economic organization of a country at a given point in its history, and it is determined by it. Thus, the tax system reflects the degree of development of a nation. Tax systems change as a nation's economy develops, generally reflecting two movements: a quantitative one, entailing an increase in tax burden throughout the development process, and a qualitative one, entailing an increased exploration of the foreign trade base in its initial development stages, and gradually migrating to the consumption and income bases.

Considering that taxation is strongly related to the degree of development of a country, we may infer that poor and rich countries will have different tax systems. This is what in fact happens, which implies different approaches by tax administrations depending on the nation's degree of development. In this regard, there are several important aspects that are worth mentioning.

First, the economy itself is different in poor and rich countries. Tanzi and Zee (2000) identified the following characteristics of developing countries that influence tax policy: large share of the agricultural sector in GDP and total employment, a significant informal sector, an economic structure with many small companies operating "in cash", and a low share of wages in the total national income. These characteristics imply a high level of tax evasion, difficulties for tax administrations to exercise control and a consequent need to establish broad regimes for small companies, and a narrow income base.

Second, the social characteristics of these countries also differ. Bird (1991), Burgess and Stern (1993) refer to issues like low literacy and insufficient education levels. Shah and Whalley (1991) point to social inequality. Both characteristics make it difficult to implement an income tax, because of the small tax base (few rich people), complex legislation and accessory obligations incompatible with countries with a low education level.

Third, Bird (2000) in particular has been clear in asserting how administrative capacity can also be a strong restriction when trying to raise revenues in developing countries. The problem is that the lack of appropriate human and material resources implies, in general, little administrative capacity, which in turn implies a great difficulty in raising the revenues necessary for the development of the country.

The characteristics identified above, in addition to those of a political and cultural nature, influence tax policy making in developing countries. In this sense, it is impossible to disconnect the tax policy from a nation's social and economic development. Consequently, the tax administration is also affected by those factors and must look at the country's environment and economic reality in order to act efficiently and in accordance with the nation's long-term policies.

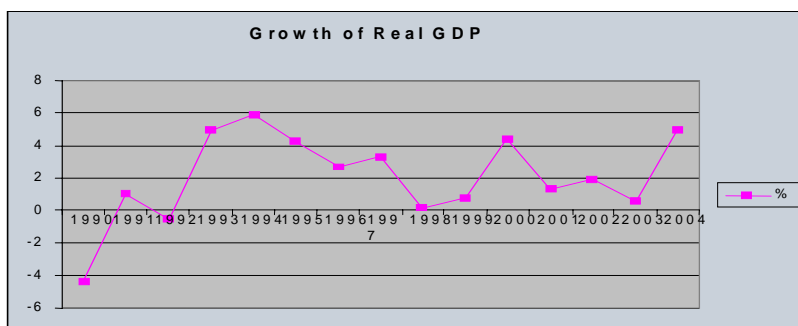
The Brazilian case serves as an example to analyze this issue. Both the tax system and the tax administration in Brazil have undergone changes in the last decades. Those changes were due to the country's economic growth and the subsequent changes in the economic structure, and also to factors like globalization, the IT revolution, and increased trade and financial exchanges with other countries.

We shall now analyze the Brazilian case, starting with changes in the tax system, followed by an analysis of how the tax administration (limited here to the Federal Revenue Secretariat) has been seeking to adapt to those changes.

2. GOVERNMENT POLICY: THE TAX SYSTEM AND THE DEVELOPMENT POLICY IN BRAZIL

Brazil's development policy is necessarily focused on promoting productive investment and creating jobs, in an attempt to improve the distribution of income. In the last decades, Brazil, like several other developing countries, has gone through unstable cycles of economic growth, especially affected by the volatility of short-term financial resources that the country needs to pay off its debts.

Chart 1



Source: Instituto Brasileiro de Geografia e Estatística

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The fiscal policy is the instrument that the State uses to perform its functions relative to government spending, taxation, stabilization and planning of the nation's economic policy. In the case of Brazil, since the financial crisis in 1998/1999 (a reflection of the Asian crisis, which affected several developing countries - see real GDP decline in Chart 1), the fiscal policy has been frequently based on the need to maintain the public debt at sustainable levels (currently Brazil's debt-to-GDP ratio is very high: 56.8%, in December 2004). This is necessary in order to reduce the degree of volatility in the Brazilian economy and its exposure to the effects of short-term venture capital.

Thus, even if there may be clear objectives aimed at long-term production, export and creation of employment, the fiscal policy has recently had to prioritize fiscal adjustment so that the lack of fiscal balance would not lead to the country towards more critical situations of instability, like that which would be caused by a failure to pay off the domestic and foreign debt.

This economic scenario has significant implications for the tax administration because fiscal sustainability and the debt payment have been ensured by the generation of significant primary surplus (revenue minus expenses, before interest). Within this context, in the last few years, the Brazilian tax policy has given priority to a real increase in revenue, with successive increases in tax burden.

Table 1 - Evolution of tax burden and primary surplus

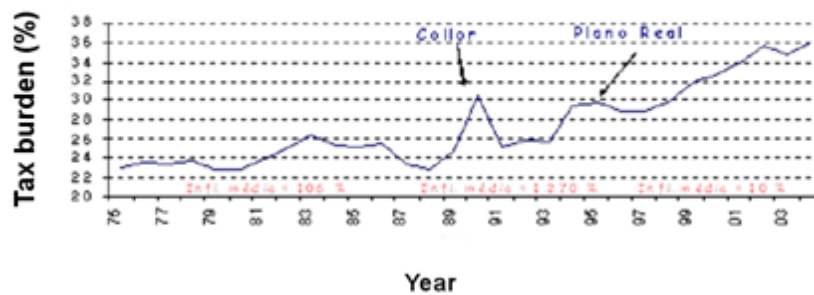
YEAR	TAX BURDEN (% of GDP)	PRIMARY SURPLUS (% of GDP)
1995	29.8	0.3
1996	29.0	-0.1
1997	29.0	-1.0
1998	29.7	0.0
1999	31.7	2.8
2000	32.6	3.3
2001	34.0	3.6
2002	35.6	4.0
2003	34.9	4.4
2004	35.9	4.5

Source: Tax Burden in Brazil, several years, Secretaria da Receita Federal; Central Bank of Brazil.

Comments: the tax burden concept used is broad and includes the taxes, fees and social contributions of the three levels of government (federal, state and municipal).

In the period under analysis (1995 to 2004), there is a strong positive correlation (95.95%) between tax burden and primary surplus, which shows that, in that regard, the Brazilian tax policy is meeting its objectives. When those results are compared to those of previous decades, it can be clearly seen that the Brazilian tax burden increased by approximately 10 p.p. in a period of approximately 15 years, which entails a strong fiscal adjustment and a significant redistribution of public and private resources.

Chart 2 - Tax burden and inflation



In the last ten years, Brazil's tax burden increased to levels similar to those of the OECD (Organization for Economic Cooperation and Development) member countries.

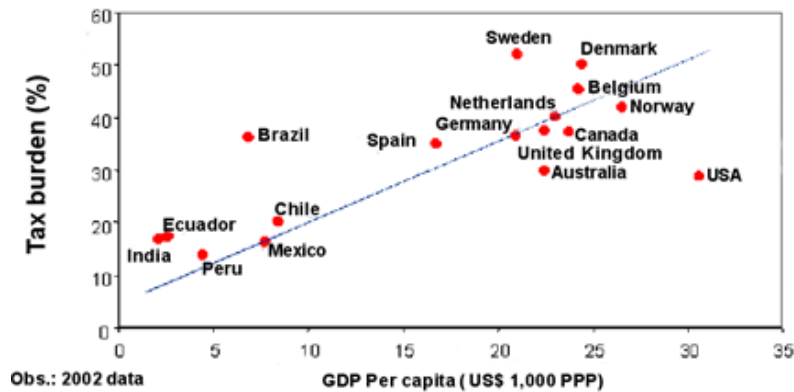
**Table 2 - Tax burden (% of GDP)
Comparison between Brazil and OECD member countries**

1 ^o	Sweden	50.84	17 ^o	Brazil	35.91
2 ^o	Denmark	49.02	18 ^o	United Kingdom	35.38
3 ^o	Belgium	45.82	19 ^o	New Zealand	34.89
4 ^o	Finland	44.98	20 ^o	Portugal	33.96
5 ^o	France	44.24	21 ^o	Canada	33.91
6 ^o	Norway	43.95	22 ^o	Slovakia*	33.12
7 ^o	Italy	43.45	23 ^o	Turkey	33.02
8 ^o	Austria	43.11	24 ^o	Poland	32.63
9 ^o	Luxembourg	41.68	25 ^o	Australia	31.50
10 ^o	Iceland	40.31	26 ^o	Ireland	30.07
11 ^o	Czech Republic	40.01	27 ^o	Switzerland	29.82
12 ^o	The Netherlands	38.88	28 ^o	Japan	25.84
13 ^o	Hungary	38.34	29 ^o	Korea	25.49
14 ^o	Germany	36.27	30 ^o	USA	25.39
15 ^o	Greece	35.97	31 ^o	Mexico	19.49
16 ^o	Spain	35.93			
OECD average		36.50			
EU average		40.60			

Comment: Brazil: 2004 data (SRF); other countries: 2003 data (OECD)

As shown in Chart 3, in a correlation between the level of taxation and the level of development of a country, Brazil is clearly outside the straight line. As regards the causal relation between these two variables, considering the current difficulty in reducing tax burden in Brazil due to the fiscal adjustment, the level of revenue is expected to be used for long-term development (which is not done today due to the high foreign debt payments).

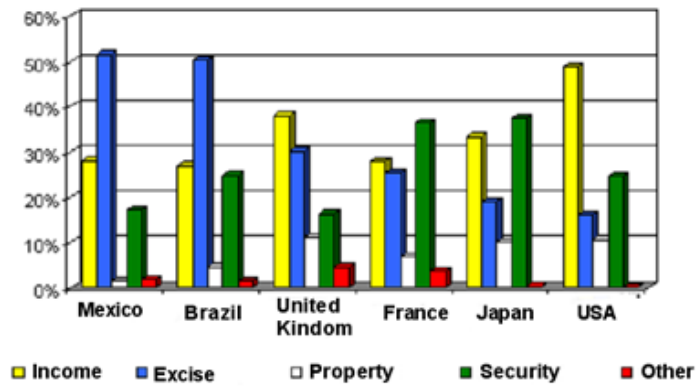
Chart 3 - Tax burden and economic development



However, the changes in the tax system are not reflected only in the amount of revenues raised but also in the quality of the taxes. In fact, this need to ensure fiscal sustainability caused profound changes in Brazil's tax system. As a general rule, tax collection was prioritized, often to the detriment of tax principles like economic efficiency and fairness. For example, much of the tax increase was based on cumulative taxation of companies, a trend currently intended to be reversed. The increase in tax burden occurred mostly in consumption taxes, which are typically regressive. Thus, although it has a tax burden similar to that of developed countries, as was seen before, Brazil shows a composition that is very similar to that of most developing countries.

Chart 4 shows that taxes on consumption account for approximately 50% of Brazilian revenues, while income taxes account for only 25%, in clear contrast with, for example, the United States. The big problem in Brazil and other Latin American countries, in this regard, is the distribution of income, which is one of the most concentrated in the world. This implies that the income base is narrow and that it cannot be duly tapped because of the great mobility of the income of few, extremely wealthy individuals. To meet its revenue needs, the tax system has to resort to the consumption base, which ends up having a negative effect on income distribution.

Chart 4 - Distribution of tax burden by base



Consequently, in the last few years, the Brazilian fiscal policy had, as a general rule, a revenue-raising purpose, which caused some distortions for long-term development but was necessary for the country to attain fiscal balance, reducing the degree of external volatility and offering protection against risks of international crises. However, especially after having achieved a good level of revenues, and based on the shared diagnosis by the government and society that the tax burden is at a very high level, the idea is to implement changes aimed at adapting the tax system to the economic reality and try to improve the business climate, generating greater competitiveness for Brazilian companies. These measures seek to exempt productive capital and promote a long-term economy and exports.

We shall therefore classify legal changes in Brazil as those measures that have a revenue-raising purpose and those aimed at a long-term development plan.

- **Revenue-Raising Measures**

Among the measures with an exclusively revenue-raising purpose, there

¹ The Contribution for Social Security Financing (Cofins) and for the Social Integration Program (Pis) were traditionally levied on the gross income of companies, without compensation for the amounts paid in the previous stages of the production / trade process (accumulation). Because of ease of control and the immediate revenue effect, the Cofins rate was successively increased since the late 1980's. In 1988, the rate was 0.5%, reaching 3% in 1999. As we will see later, currently the PIS and the Cofins are partially non-cumulative. Also cumulative are the main municipal tax, the Tax on Services (ISS), and the Provisional Contribution on Financial Transactions (CPMF).

is the use of accumulation in the Brazilian system¹ (which has been partially reversed in the last two years), broad use of income presumption systems (without the right to compensation for losses)² and operational practices to combat tax evasion, such as tax substitution³ and source withholding.

As regards accumulation and presumption of income, although they have a simplifying and revenue-raising purpose, contributing to easier and more economical collection by the tax administration, these measures compromise in part the principle of fiscal fairness, because economic capacity does not have a direct relation with a company's revenue or turnover.

The tax on financial transactions also had a revenue-raising purpose. Since 1993, Brazil levies the Provisional Contribution on Financial Transactions (CPMF)⁴. Imposed on a temporary basis with the purpose of obtaining funds for the public healthcare system, the CPMF, which is levied on bank account debits, raised in 2004 an amount equivalent to 1.5% of GDP, accounting for 4.15% of the total revenue. A good thing about this contribution, in addition to its high revenue-raising power and the low operating cost, is the possibility it offers to cross CPMF data with taxpayers' income tax returns. This possibility is important for the tax administration of a country where bank secrecy still hinders access to information.

- **Export Incentives**

Another priority of the economic policy of the last decade, in addition to the need for fiscal adjustment, was export incentives. This is due to the fact that the difficulties experienced by Brazil in its balance of payments

² In Brazil there are two ways to presume the taxes due by the taxpayer: Presumed Income and the SIMPLES. In the Presumed Income regime, taxpayers calculate the corporate income tax (IRPJ) and the social contribution on profits (CSLL) based on a percentage of the company's gross revenues. Under the SIMPLES regime, micro and small companies may pay up to five different federal taxes and contributions using a single basis for calculation: the company's income.

³ As regards the Tax on the Movement of Goods and Services (ICMS), levied by the states, although it was created as a type of Value Added Tax (VAT), its collection method makes an excessive use of the tax substitution regime, turning the tax into a selective one. Only three goods and services subject to the tax substitution regime (energy, fuel and communications) account for 40% of the total revenue raised by the tax. There are still other products under the tax substitution regime of the ICMS, like beverages, cigarettes and vehicles which, added to the ones mentioned above, account for more than 50% of the revenue raised by the tax.

⁴ This contribution was called, between 1993 and 1996, "Provisional Tax on Financial Transactions" (IPMF).

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also contributed to the 1998/1999 financial crisis. Exports were also seen as a way to create employment and generate revenue for the country.

In an attempt to correct the anti-export bias of the Brazilian tax system and thus improve the situation of the balance of payments, changes were made to the structure of some taxes. An export incentive measure was the decision, in 1997, to exempt the export of goods -including commodities- or services from the Tax on the Movement of Goods and Services. Up to then, only industrialized products were exempted from the ICMS.

Another export incentive measure, in force since 1999, is the refund of the portion of cumulative contributions paid on exported products. As was said before, certain contributions were exclusively levied in a cascading form (accumulation) and were therefore passed through to the final price of the good and were not refunded when the good was exported. This export of taxes differs from economic recommendations and reduces the international competitiveness of a country. To address this problem, a mechanism for the refund of these contributions was established based on an index estimating how much of the contribution was exported.

The evolution of the trade balance in Brazil in the last ten years shows a significant improvement in the export sector, which, together with a smaller growth of imports, made it possible to have a significant trade surplus, particularly in the last two years. This result is essential for the Brazilian external balance, since the country continues to show a deficit in the services account, and the inflow of foreign capitals to finance deficits in current transactions suffers frequent fluctuations.

Although the improvement in the trade balance cannot be attributed exclusively to changes in the Brazilian tax system, such changes undoubtedly made their contribution.

Table 3 - Evolution of the Brazilian trade balance
in million dollars

YEAR	Exports	Imports	Trade balance
1995	46,506	49,972	(3,466)
1996	47,747	53,346	(5,599)
1997	52,994	59,747	(6,753)
1998	51,140	57,714	(6,575)
1999	48,011	49,210	(1,199)
2000	55,086	55,783	(698)
2001	58,223	55,581	2,642
2002	60,362	47,240	13,122
2003	73,084	48,291	24,793
2004	96,475	62,782	33,693

Source: Central Bank of Brazil; Ministry of Development, Industry and Foreign Trade

▪ **Recent changes in the Brazilian tax system aimed at stimulating long-term social and economic development**

In the last few years, the good tax revenue levels obtained made it possible to implement several measures to correct some distortions in the tax system and promote productive investment and long-term saving. To a certain extent, it appears that Brazil prioritized revenue raising in the last 15 years and, after having reached a tax burden that the population considers to be very high, the country is now in the condition to focus on the quality of the system, looking at long-term development.

The biggest change in the last few years was the partial reversal of cumulative taxation in Brazil, with the introduction of the non-cumulative system for the PIS and the COFINS as of 2003. In fact, the existence of cumulative taxes implies significant differences in the effective tax burden of the various sectors of the Brazilian economy, with a direct relation between the complexity of the production chain and the incidence of taxes. Most of the production sector wished to see this situation change. Therefore, efforts were made to turn cumulative taxes into taxes on value added. The transformation, however, was only partial, because several economic activities remained under the cumulative tax system.

Also, the system was modified to exempt productive investment, which used to be heavily taxed in Brazil -especially the acquisition of capital goods. The tax on Industrialized Products (IPI), a tax on the value added of capital goods, went from 5% to 0% in less than two years.

Another measure was the reduction of the term for depreciation of machinery and equipment in Brazil, in addition to the implementation of accelerated depreciation mechanisms. The earlier recovery of the tax cost of investment reduces the cost of opportunity of the purchase of machinery and equipment.

In order to increase long-term aggregate saving, changes were introduced to taxes on the returns of financial investments, which now have different rates (from 15% to 25%) depending on the duration of the investment. The purpose of this measure was to stimulate long-term saving. Before, the tax rate was 20%.

3. TAX ADMINISTRATION AND MANAGEMENT OF THE ENVIRONMENT: POSITIONING AND SUPPORT

The changes made to the Brazilian tax system throughout the years have required a process of adaptation on the part of the tax administration -the Secretaria da Receita Federal (SRF). Above all, the SRF was required to meet the fiscal balance objective, since the margin to reduce expenses was very small. Thus, to respond to the needs of the economic policy, the SRF focused on revenue raising, especially as of 1995.

▪ Mission

Within this approach, the SRF did not move away from its basic mission (raising revenues) but tried to use all the instruments available in terms of control and services in order to achieve its goal. Taxpayer service, an area that was not clear or present in previous decades, started to be used as a means to encourage voluntary compliance. Therefore, its mission is not just limited to revenue raising and auditing, as can be noted below:

Mission: "The Receita Federal shall promote tax raising and perform customs control, complying with and enforcing the applicable legislation in a fair manner, contributing to the improvement of tax and customs policy, offering an excellent service to society and encouraging voluntary compliance with tax obligations."

It may be said that the revenue-raising function has not ceased to have paramount importance in the case of Brazil, but its mission has been extended to include factors beyond revenue raising and control, like high-quality taxpayer service. The current mission is the result of a more mature relation between the tax authority and taxpayers. Although in the

past the need for the tax authority to act in association with good taxpayers and be on the alert for misconduct was not expressly stated, it is now essential that this be the case. It is also important to note that the SRF explicitly included in its mission the need to contribute to the improvement of tax and customs policy. Therefore, it is not just an organization that executes the fiscal policy, but one whose formal mission expresses the desire to contribute to the improvement of the policies it is supposed to enforce.

- **Need for Change and Support (Strategic Recognition)**

The need for change in the SRF was, to a large extent, the result of the need to generate a fiscal surplus, under a new awareness in terms of fiscal balance, after decades of monetary instability, hyperinflation and chronic fiscal deficit. This change started to take place in 1995 -coinciding with the adoption of a macroeconomic plan for inflationary stability and a new administration in the federal government. At that time, the tax administration came to be recognized as a strategic agency with a key role in the attainment of the government's goals, especially since inflation, money issuance and indebtedness proved to be exhausted as a financing model.

Consequently, the SRF had significant support, in particular the commitment to liberate the organization from political influence, which has helped the agency gain a high degree of technical credibility. The Secretary appointed in 1995 kept his position for 8 years. This reality differs significantly from that in the 80's and early 90's, when the leader of the organization would sometimes leave office less than a year after appointment. This also contributed so that, in spite of the changes in the administration in the last presidential elections in Brazil (2002), there were no administrative changes in the SRF. The stability of directors in their positions can also be understood as a sign of strong support to the SRF.

However, it is important to recognize that the changes in the SRF did not occur simply because of the stability of the team of directors and the reduced influence of politics on the agency. There was certainly a sound base that had been forming for decades, in terms of organizational structure and qualified and trained human resources. Two basic factors allowed the SRF to be prepared for the changes in the 90's: an adequate organizational structure and qualified human resources.

The Secretaria da Receita Federal (SRF) was created in 1968 in an attempt to bring three departments together into a single structure: Income Tax,

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Consumption Taxes and Customs. Its creation, then, increased the powers of the auditing machine, especially as a result of the integration of domestic and customs taxes, which provided an integrated view of taxpayers and made it possible to rationalize procedures and cut down operational costs. The emergence of the Secretaria da Receita Federal entailed significant progress in facilitating compliance with tax obligations, contributing to the increase in revenues in the late 1960's. There was a significant increase in the national tax burden, which accounted for 16% to 18% of GDP at the beginning of the decade and reached levels of more than 24% of GDP after 1968. Since then, the SRF has had a sound and stable organizational structure, organized by functions, with good reach nationwide.

In the last few decades, the SRF has been trying to create a sound career structure. Except for very few senior management positions, all tax administration officials are selected through an open competitive contest which is one of the most selective in the public administration. Traditionally, the SRF has been able to compensate officials in a manner consistent with their functions, with salaries that are usually higher than the average of the Executive branch of power in Brazil.

▪ **Changes in 1995-2005**

Faced with the challenge to help the country achieve fiscal balance and with the political support to carry out that task at a time of economic and political adjustment in Brazil ⁵, the SRF undertook a process of change and adaptation.

The major changes went along four lines: from a paper-based to a technology-based administration; from a rigid, function-centered organization to a more flexible and specialized organizational structure; from a control-centered philosophy to one including the notion of service; from a closed organization to one that exchanges information and is integrated to other similar agencies.

⁵ Exactly in 1995, Fernando Henrique Cardoso took office and served two consecutive terms (1995-2002). Immediately before his administration, the country suffered the discredit of the first president elected by direct vote of the population (Fernando Collor) and it was then governed by the vice-president. The period 1990-1994 was one of strong macroeconomic instability (with annual inflation rates higher than 1,000%) and political distress due to a president leaving office for corruption charges.

o Investment in Information Technology

Technology was a relevant factor that allowed the SRF to achieve greater efficiency, greater control of taxpayers and better services. In particular, this investment was focused on the development of the electronic return and payment system and the web site, that is, tools to facilitate voluntary compliance and establish easier and faster communication with taxpayers. Thus, technology was a significant aspect in the approach to taxpayer services. Currently, the SRF receives 100% of the tax returns of legal entities and 95% of individual tax returns by electronic means. In addition, technology served as an integrator and facilitator of communication inside the organization, with all the decentralized units connected on a network and with one computer per official.

o Organizational Structure - Seeking Specialization

In structural terms, the SRF tried to achieve greater specialization in activities that were traditionally organized by function. There are several examples of structural changes aimed at adapting to the new reality in the 1990's. For example, with the opening of Brazil to international trade in the 1990's and the subsequent introduction of legislation adopting the worldwide taxation regime and transfer pricing, the Special Office for International Affairs (DEAIN, Portuguese acronym) was created. Similarly, considering the importance and peculiarities of the financial system, and since control was rather loose in the various SRF units, hindering the training of qualified staff, the Special Offices for Financial Institutions (DEINF is the Portuguese acronym) were created. The cities of Rio de Janeiro and São Paulo were chosen as the seats of these offices, to bring control closer to the physical location of taxpayers.

Another important change that had positive effects on revenues was the creation of the General Investigations Office, with a fiscal intelligence function. It is also worth mentioning the creation of departments specialized in detecting smuggling to improve customs controls.

o Adoption of a Taxpayer Service Philosophy

The idea that a tax administration should seek a balance between control and service made the SRF invest in fiscal education and guidance for taxpayers in the last few years. Until the late 1990's, the organization did not even have units specialized in taxpayer service. Thus, the creation of Taxpayer Service Centers subordinated to the local units, in response to the need to improve the tax authority-taxpayer relationship, was the beginning of a process whereby service started to be used as an incentive for voluntary compliance.

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o Federal Integration and Exchange of Information with Other TA's

In addition to the SRF, which acts at the federal level, the other levels of government of the Federation (states and municipal districts) have their own tax administrations that collect taxes under their jurisdictions and perform all the functions inherent in a tax administration⁶. The SRF has been recently trying to attain an effective integration and exchange of information with those other TA's, as well as with other relevant agencies involved in the administration of taxes in the country. For this purpose, the SRF introduced the idea of a specific forum for the exchange of information and good practices among the tax administrations of the three levels of government. This forum, called ENAT (National Meeting of Tax Administrators), is made up by the leaders of the tax administrations of the SRF, the states and municipal districts. Two annual meetings were held so far, in 2004 and 2005.

As a result of the ENAT, several cooperation protocols have been signed and long-term projects have been undertaken. Some of those projects under execution within the framework of the ENAT are: integration of records of Brazilian TA's, with the adoption of a single taxpayer registration number, and the adoption of the electronic invoice and digital bookkeeping.

▪ Other Issues Relative to Follow-up and Support: Autonomy and Outsourcing

An important aspect to be noted is the fact that the Receita Federal does not yet have the necessary autonomy in terms of the management of its resources, since it follows the instructions of the Ministry of Finance, as a direct administration agency. Therefore, the budget is still a sensitive issue in the management of the organization, since, on occasion, the SRF has been left without the appropriate long-term planning and investment capacity. Likewise, at times of government budget difficulties, there have been disruptions and contingencies in terms of resources, which have ended up paralyzing certain activities for some time.

It is worth mentioning, as an example of political support, that in 2005 the SRF received extra funds for investment amounting to US\$250 million. This money will be used to acquire new equipment for customs, to invest

⁶ Brazil has a federal district, 26 states and more than 5,000 municipal districts, which gives an idea of the multiplicity of institutions in charge of administering taxes throughout the country.

in technology and guarantee the cadastre integration and cooperation with the states and municipal districts. Obviously, this contribution of additional funds is linked to reasons that go beyond taxes, since the modernization of customs aims at reducing foreign trade costs, just as investments in integration and technology seek to reduce the costs that have an impact on the creation and maintenance of companies. However, had it not been for the prestige that the Receita Federal gained over the years, mainly thanks to the effective attainment of the revenue-raising goals in the last ten years and the commitment with which it has managed resources and combated evasion, another agency could have been chosen for the provision of those additional funds.

The areas that are typically outsourced to the private sector are technological development and collection through banks. Although the Receita Federal has, in all the units of the organization, officials who are responsible for specifying and managing the organization's technological demands, there is a preferential contract with a mixed capital company, SERPRO, to promote the development and maintenance of the technological platforms used by the Receita Federal. This administrative model is based on the argument that the tax administration should focus on its primary activity or core business.

Also outsourced is tax collection through banks. The experience of devolving the responsibility for tax collection upon banks has been a success. The system has been fully in force since the 1980's, with successive improvements in the last decade. Today, none of the units of the Receita Federal collects taxes. Collection through banks has a series of advantages because, in addition to expediting and automating the receipt of funds by the National Treasury, it prevents situations that may give rise to corruption and it avoids unnecessary bureaucratic controls.

4. CONCLUSION

In the 1990's, several changes were introduced to the Brazilian economy, the main ones being macroeconomic and monetary stability (with the disappearance of the inflationary tax), fiscal adjustment to bring public accounts to a balance and avoid the return of inflation, and the opening of the country to international trade, with the subsequent effects of economic globalization. The tax administration was then called upon to play a role in the economic development plan, especially in connection with the fiscal adjustment but also regarding the control of the increasing flow of foreign trade and the adaptation of Brazilian companies to the new reality in terms of technology and international transactions.

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Undoubtedly, this key role in the adjustment of public accounts by increasing revenues (expenses in Brazil are under stringent control) was the reason why the SRF had so much political support to face these changes. Maybe the most important support received was the administrative continuity of the organization's leaders and the protection of its technicians against political influences and interferences. With this support and considering that the SRF already had a qualified staff selected by competitive contest, it was possible to make the changes desired.

The changes introduced were of five different types and they all contributed to the achievement of the results expected in term of revenues and helped the SRF face the challenges of a global society.

First, the SRF's role in tax policy design, which is part of its institutional mission. There is no doubt that it was the change in legislation -in part designed by the SRF and submitted to the National Congress for approval- that justified the increase in tax burden from 29.8% to 35.9% of GDP between 1995 and 2004. Thus, the TA generated changes in the tax legislation itself, showing political support and credibility. However, it cannot be denied that the changes in the legislation, aimed at increasing revenues, sought administrative simplicity, equity and economic efficiency. Thus, Brazil was very much financed with regressive, cascading taxes on consumption and with administrative measures like presumption of income (especially for small and medium-sized taxpayers) and source withholding. More recently, in the last two years, after having achieved a good level of revenue and with a tax burden considered to be high, efforts have been made to reverse that trend, with significant changes in the legislation aiming at economic efficiency. Another containment measure, effective as of 2006, is the limit imposed on SRF's revenue of 16% of GDP.

Second, to adapt the organizational structure to the new economic environment, efforts were made to change the functional structure of the TA and have an organization specialized in different sectors, particularly the financial sector and that of globalized companies. In addition, certain activities were also specialized and integrated, like taxpayer service, which used to be scattered across different areas of the SRF.

Third, the decision was made to invest heavily in technology, among other reasons because the number of staff was not sufficient for the increasing number of services rendered. Technology made it possible to make significant progress in terms of services rendered remotely and follow-up of information over the Internet. The electronic tax return and payment system and the SRF web site received awards on account of their quality and as examples of e-government in Brazil.

Fourth, attempts were made to achieve greater balance between control and service, redefining the SRF mission to provide for the need to render high-quality services to citizens and stimulate voluntary compliance.

And fifth, the SRF ceased to be an inward-looking organization and tried to integrate with other similar or complementary agencies, which has attested to its leadership in the Brazilian government sector and has earned it political support for its activities.

All these lines of action were important for the SRF to achieve its objective in connection with the country's economic policy, act in a more integrated manner with the external environment and receive the necessary support for the performance of its functions. However, it is important to mention that Brazil is still in need of a systematic planning culture that may achieve greater coordination and consistency among the main lines of the system, the tax administration and the long-term economic development policy.

ANNEX

COMPOSITION OF BRAZILIAN TAX BURDEN BY TAX (2004)

In R\$ million

	AMOUNT	SHARE (%)	% GDP
FEDERAL GOVERNMENT	442,280	69.72	25.04
<i>Taxes</i>	148,038	23.34	8.38
- INCOME TAX	110,308	17.39	6.24
Individuals	5,799	0.91	0.33
Legal persons	37,020	5.84	2.10
Withheld at source	67,489	10.64	3.82
- TAX ON INDUSTRIALIZED PRODUCTS.	22,538	3.55	1.28
- TAX ON FINANCIAL TRANSACTIONS.	5,209	0.82	0.29
- TAX ON FOREIGN TRADE	9,181	1.45	0.52
- TAX ON RURAL PROPERTY	245	0.04	0.01
- PROV. TAX ON FINANC. TRANSACT. (IPMF)	0	0.00	0.00
- FEDERAL FEES	371	0.06	0.02
- OTHER	187	0.03	0.01
<i>Social Security</i>	246,466	38.85	13.95
- SOCIAL SECURITY CONTRIBUTION	93,765	14.78	5.31
- COFINS	77,593	12.23	4.39
- PROV. CONTR. ON FINANC. TRANSACT. (CPMF)	26,340	4.15	1.49
- CONTR. ON LIQUID PROFIT	19,575	3.09	1.11
- PIS	17,116	2.70	0.97
- PASEP	2,301	0.36	0.13
- SOCIAL CONTR. PUBLIC SERV.	7,179	1.13	0.41
- OTHER SOCIAL CONTRIBUTIONS (1)	2,597	0.41	0.15
<i>Other</i>	47,775	7.53	2.70
- FGTS	28,269	4.46	1.60
- CIDE FUELS	7,816	1.23	0.44
- OTHER ECONOMIC CONTRIBUTIONS (2)	1,917	0.30	0.11
- EDUCATION WAGES	4,831	0.76	0.27
- SYSTEM "S" (3)	4,942	0.78	0.28
STATE GOVERNMENTS	165,324	26.06	9.36
- ICMS	138,275	21.80	7.83
- IPVA	8,910	1.40	0.50
- ITCD	710	0.11	0.04
- FEES	2,881	0.45	0.16
- STATE SECURITY	11,688	1.84	0.66
- OTHER (AIR, ICM, ETC.)	2,860	0.45	0.16
MUNICIPAL GOVERNMENTS	26,786	4.22	1.52
- ISS	9,682	1.53	0.55
- IPTU	8,965	1.41	0.51
- ITBI	1,851	0.29	0.10
- FEES	3,055	0.48	0.17
- MUNICIPAL SECURITY	3,118	0.49	0.18
- OTHER TAXES	115	0.02	0.01
TOTAL	634,390	100.00	35.91

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Case study

TOPIC 1.1

GOVERNMENT POLICY, POSITIONING AND SUPPORT

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CONTENTS: 1. Legislation.- 1.1. SRI Incorporation Act .- 1.2. Capital Circulation Tax (1% - ICC).- 1.3. Public Finance Rearrangement Act 99-24.- 1.4. Fiscal Rationalization Act 99-41.- 1.5. Tax Reform Act, May 2001.- 1.6. Conclusions.- 2. Tax Administration.- 2.1. System of values.- 2.2. Fundamentals of the SRI's Management Model.- 2.3. Taxpayer's Single Identification System (RUC).- 2.4. Invoice system.- 2.5. Tax return system.- 2.6. Tax management.- 2.7. Tax audit.- 2.8. Tax collection control.- 2.9. Recovery.- 2.10. Accounting.- 2.11. Information technology.- 3. Tax Culture and Dissemination.- 3.1. Physical infrastructure: Basic respect for the citizen.

I would like to thank the Interamerican Center of Tax Administrations for the opportunity to share the experience of Ecuador, regarding the institutionalization of the Tax Administration.

In order to understand the magnitude of the effort employed, it is necessary to outline the country's situation as from 1998, and the context of the application of the Fiscal and Tax Policies.

TOPIC 1.1 (Ecuador)

When I took over the management of the Tax Administration in September of that year, Ecuador was undergoing a severe economic crisis marked by political instability and social conflict, with records of high fiscal deficit and an inflationary process with no signs of recovery. The price of oil stood at US \$7, and as result, revenues from that sector, which backed 60% of the State's General Budget, had gone down substantially, thus evidencing fragile public finances and the absence of internal strengths to overcome the external sector's crisis.

Added to this were the low levels of tax revenues, a null fiscal presence, high degrees of tax evasion, a generalized corruption and a deficient policy of public spend that inspired no confidence to citizens.

This crisis forced the Ministry of Economy and the Tax Administration to carry out an administrative reform, to be then able to trigger successive reforms to the tax legislation, targeted at rationalizing the tax structure and improving revenues.

On the other hand, it should be noted that since 2000, the dollarization process of the economy gave rise to a higher revaluation of fiscal policy management, and hence, of tax policy.

To understand the fiscal results achieved by Ecuador, the events must be analyzed in relation to three fundamentals of the fiscal policy: Legislation, Administration and the community's Tax Culture.

1. LEGISLATION

1.1 SRI Incorporation Act

Compelled by the critical circumstances, the National Congress approved the Incorporation Act of the Internal Revenue Service (SRI, in the Spanish acronym), as a self-governed entity with own resources deriving from the level of internal tax revenues; and the Act of the Ecuadorian Customs Corporation (CAE, in the Spanish acronym), intended for the administration of revenues from foreign trade taxes, leaving the Ministry of Economy in charge of the fiscal policy and in particular of the public spend administration.

1.2 Capital Circulation Tax (1% - ICC)

In view of the serious fiscal deficit, the country opted for a tax that would rapidly bring liquidity to sort out the fiscal cash, called ICC (in the Spanish acronym), a 1% levied upon the value of all monetary operations and transactions performed through the Ecuadorian financial system's institutions, and thus substituting the Income Tax, except for banking institutions and companies that had signed contracts with the State for oil exploitation.

1.3 Public Finance Rearrangement Act 99-24

The Act contemplates reforms to the Tax Code, whereby are flexibilized several administrative and tax litigious proceedings; tax violations and frauds are typified; new notice mechanisms are allowed, such as: postal services, carrier services, fax communications and other electronic means; and stricter penalties are set forth for fiscal fraud cases.

The SRI's efficiency, as proven in the formation and management of a huge data base in relation to the ICC, arose suspicion of individuals who had attempted to hide their economic capacity behind the new tax, and so pressure was exercised until the situation was removed.

This Act restored the Income Tax from May 1st 1999, with a new rate that was reduced from 25% to 15%, but which established a significant reduction in exemptions; simplified deductions; and conditioned the deductibility of payments made abroad for interest and commissions to the rates fixed by the Board of Directors of the Central Bank, in the first case, and to 2% of the value of their respective contracts, in the second case.

As for the VAT, it cut down exemptions regarding the transfers of goods, and sets a wide taxable base system for services, establishing a limited number of exemptions. Also, it regulates more adequately the mechanisms for the application of tax credits.

Due to the need to increase fiscal resources rapidly, it was also created a special tax on the ownership of vehicles which, in the case of terrestrial transportation vehicles was levied for only one year, but which shall remain permanent on privately-owned yachts, airplanes and helicopters destined for public transportation of passengers. Also established only once is the Corporation's Net Worth Tax, levied with a 1% rate.

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In general terms, the benefits of this Act are evident in the removal of many fiscal shields; in the elimination of exemptions both for income and tariffs; in the allocation of powers so that the Tax Administration may close down establishments and seize merchandise, and penalize tax fraud even with imprisonment.

The mechanisms for VAT refunds is established for the public and exporting sector, as a control instrument in view that the former is largely involved in the market movement.

1.4 **Fiscal Rationalization Act 99-41**

Reinstates withholdings from the source of the Income Tax, adjusts exemptions of VAT, assigns control powers to the SRI through the data flow of taxpayers, and empowers the Tax Administration to order close-downs upon the non delivery of required information. Raises Income Tax rate from 15% to 25%.

1.5 **Tax Reform Act, May 2001**

By means of this Act it is established the annual tax on the Ownership of Motorized Vehicles destined for terrestrial transportation, and the SRI is assigned the structuring of the data base for its administration and control. It is important to notice that in this way, not only has a high degree of rationality been added to the vehicle registration process, but also, and most of all, the process has been made transparent. Also, it is determined that the amount of the tax revenues will be deposited in a specific account of the SRI, intended to control banking revenues.

Reforms are also made to the Tax Local System Act, regarding the Income Tax, by widening the taxable base and establishing a more equitable calculation chart, among other relevant modifications. At the same time, it sets forth the obligation of the SRI to form the Foreign Trade Data base and the appointment of the General Director of the Income Service as president of CAE's Board of Directors, as a measure of coordination and control of the Tax Administration as a whole.

1.6 Conclusions

The law:

- Must be concise and clear, and avoid ambiguity that may give rise to interpretations that facilitate tax evasion.
- As for the case law, it must not contemplate exemptions.
- Must contain penalties corresponding to the non-performance thereof.

Exemptions:

- Hinder administration, by braking control chains.
- Bring about a feeling of inequality of affected taxpayers.
- Generate distortions in the allocation of economic resources.

2. THE TAX ADMINISTRATION

An essential aspect of success is the process of institutionalizing the Tax Administration by means of the application of a Management Model that has gained social legitimacy, in the light of the respect for its officers, the confidence in its procedures, the de-personalization of processes and the clear demonstration of absolute political impartiality in the application of the law.

2.1 System of Values

The system of institutional values is a set of minimum attributes essential to perform a tax administration with integrity and impartiality. Guaranteeing integrity and impartiality of a tax Administration requires, among other things, establishing a code of conduct that outlines and fosters behavior patterns of officers and performance control; the incompatibility of practicing private tax counseling; and the respect for taxpayers in order to protect the privacy and confidentiality of their information. This is mainly reflected in:

Honesty, which reflects an ethical behavior in the performance of functions and the management of resources.

Transparency, which begins by identifying salaries, applying standardized procedures and controlling processes, and concludes with a performance evaluation and the answerability to the society.

Service Calling, as that attitude of a tax officer targeted at facilitating compliance with formal obligations of taxpayers.

2.2 Fundamentals of the SRI's Management Model

- **Centralization of regulations and operating de-centralization:** The central administration defines and establishes strategic guidelines, policies, rules, procedures and the conceptualization of operating back-up projects. Regional and provincial administrations having national coverage are in charge of the de-concentrated operation, but with a unified sense, and they feed-back processes for evaluation and adjustment purposes.

The performance evaluation is conducted by applying management indicators related to the performance of scheduled goals, within the frame of an annual operating plan.

- **Structural flexibility:** In a first stage, the SRI based its management model upon an administration scheme by projects, to then consolidate the institutional organization within a formal structure, without disregarding the flexibility required for the performance of its objectives and strategic definitions.
- **Efficiency:** The model regards efficiency as the production of desired results, with a minimum expense of energy and resources, reflected in the opportunity cost in terms of service to the society.
- **Multi-functionality:** SRI's officers are recruited from universities, groups of professional young people and the professional market at large; upon being selected after a strict process, they are qualified to perform at any position within the organization.
- **Professionalism:** this is a vital principle that allows the Tax Administration to work independently of political influences, with the essential autonomy required to comply with the complex responsibilities assigned by the Law.
- **Labor Competence:** the institution's stability derives from the result-based performance measurement; it is an administrative career non-bureaucratic model.
- **Service outsourcing:** applies both for the administration of human resources and for obtaining back-up services and information technology system development.
- **Information technology:** the model regards the IT tool as an essential element of support for the systematization of tax processes and the efficient provision of services to taxpayers.

Effects of model application:

As a result of the application of this model, the Internal Revenue Service was able to create its own organizational culture, with excellence quality responsibilities, when applying a private corporate vision to a public entity, focusing on the community-oriented service target.

From a technological point of view, the architecture and infrastructure of the SRI is one of the most advanced in the country, with a significantly lower cost than that of other similar institutions, even those of the private sector and the regional environment.

The Institution has made a great effort towards modernization, attaining socially acknowledged results, as a consequence of a fluid relationship with taxpayers and the quality of services rendered; but, most of all, thanks to the gradual increase in citizenship's confidence and social legitimacy, all factors that may become in the future strategic elements to avoid reverting the significant results achieved.

The degree of institutional development reached its highest in the gradual increase of tax revenues. The internationally accepted parameter to identify this effect is the "Fiscal Pressure", an indicator that went up from 7.2% in 1998, to 15.7% in 2004. The share of local revenues in the financing of the public budget over the last years has stood at nearly 50%, thus reverting the relevant role that oil used to play.

2.3 Taxpayer's Single Identification System (RUC, in the Spanish acronym)

It is one of the essential instruments of the Tax Administration; moreover, the management itself begins with the identification of the taxpayers' registry.

Based upon a total reengineering of its operation, it was proceeded to simplify procedures, both for registration and for RUC update and liquidation, which allowed to speed up significantly diligence assistance and to remove intermediary participation.

The RUC system allows, among other options: to confirm taxpayer's domiciles, self-generate a RUC number for corporations, perform audit controls; parameterize codes; issue notice and certification reports,

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identify establishments, generate statistics reports, assign and register the economic activity based upon the CIUU international classifier, and determine the tax vector, as an intelligent tool that establishes tax obligations levied on a particular taxpayer.

In interface with the invoice system, RUC registries are deputed through authorizations issued by the SRI to the printing companies, for the printing of sale receipts.

A single data base has been structured with direct access from diverse localities in which the SRI renders services, with on-line update.

2.4 Invoice System

Invoicing is a key element of control, particularly in countries such as Ecuador, in which the tax culture is not precisely a feature of citizenship conduct. Developing this system required a huge effort for the preparation of the regulation, the mechanisms and procedures needed for its application.

The system considered three phases:

- The first one focused basically on authorizing printing companies via the Internet, so that they would move ahead to print the sale receipts and delivery notes. The printing companies authorized by the SRI to print sale receipts took on the responsibility of handling through the Internet, the requests from the entity of the authorizations to print taxpayers' receipts, and reporting the work carried out, through the same means. This stage included the option for all taxpayers to consult, via the Internet, the validity of sale receipts from their purchases.
- The system regards authorized printing companies as strategic partners of SRI, and the Internet as the official means to handle authorization requests. Both elements allow an efficient application of the system, at a low cost for the society.
- Also during this phase was designed a control module known as "Taxpayers' White List", intended to grant printing authorization of sale receipts only to taxpayers who are in good standing with tax obligations.

- The second phase contemplated the design and automatized operation of supplementary modules and their integration to the system, intended to drop out-of-use sale receipts; grant temporary authorizations of use of sale receipts not in fully compliance with the requirements established in the regulations; receive the declaration of use of tills; authorize the use of computing systems for printing sale receipts and delivery notes; and control authorized printing companies. This second stage of the project included improvements to the data base structure and the system's security elements.
- The third phase consisted in the intensive use of the invoicing data base for purposes of tax audits, through cross-checking, and intended to make viable the management control of the diverse operating units of SRI, and to widen control over withholding receipts submitted by taxpayers upon VAT and Income Tax withholdings on their purchases of goods and services.

The progress achieved in the invoicing system implies an almost revolutionary change of rules and procedures for issuing and controlling invoices, and places the SRI in line with first-line tax collection institutions that operate in countries having a higher level of development.

2.5 Tax Return System

It is a data entry system of data submitted by taxpayers by means of a tax return form or a magnetic or electronic means. It provides different treatment for large and other than large taxpayers. Large taxpayers are bound to submit their tax returns directly before the SRI's offices, through magnetic means or the Internet, and payment is made through a banking debit from their corresponding accounts. The rest of taxpayers can submit returns in the financial system; in any case, most of them are choosing the Internet.

Large or special taxpayers are bound to submit information annexes with their tax returns, which allow to perform cross-checking and to control the activities of the rest of taxpayers with whom they perform transactions, for purposes of tax audit.

2.6 Tax Management

The aim of the tax management is to reach the largest possible number of taxpayers, while correcting non-performance behavior through rapid and timely actions.

In view that the whole tax management control begins with the submittal of a taxpayer's return, the forms used to liquidate tax must be simple and easily understood, so as to avoid interpretation mistakes; and the information required must be that strictly necessary to allow management of tax. As a consequence, particular importance has been given to the design of such forms, and taxpayers are provided with the required software so as to facilitate their submittal, particularly annexes of purchases and sales and performed withholdings; all of which allows control from an IT perspective, making it possible to determine differences and find taxpayers who are not in compliance with their tax obligations, and who in some cases have not even been registered with the Administration as economic agents.

Another relevant aspect of tax management is the control over tax credit, the offset system and credit notes; all of them aspects on which the Administration has been focusing its work.

The analysis of the information on taxpayers themselves, as well as that of other economic agents involved in declared transactions, allows to:

- Check the registry of providers.
- Check the omission of tax returns.
- Detect differences in tax payment; and
- Ensure the truthfulness of the information presented.

Each one of these actions generates notices requiring the regularization of taxpayers, for in the case of any differences, liquidation thereof becomes an action for immediate collection.

A system for collecting or receiving payment is also necessary, from the different liquidations presented by taxpayers or carried out by the Administration early on, targeted at ensuring that everything that is liquidated should be effectively collected.

The conceptualization of VAT control allows knowing taxpayer's income and hence, controlling income tax.

The design of the control management and strategy enhances the Administration's resources, minimizes operating costs and allows selecting a range of taxpayers upon which tax collection can be managed.

2.7 Tax Audit

The strategy applied was to substitute the examiners' personal relationship with taxpayers, for a concept based on automatized cross-checking, through the exploitation of data bases structured with information provided by taxpayers, and by entities of the public and the private sector.

What was pursued was the removal of tax administrator's discretionary judgment, by means of the intensive use of technological applications, the verification of the truthfulness of tax returns submitted by taxpayers and the adoption of the pertaining actions, within the frame of the Law.

The current data bases are making it possible to discover and correct tax fraud through two types of controls: the first one is a mass control exercised through systems that allow to identify taxpayers who have not submitted their tax returns; and the second one is performed through automatized cross-checking that detects discrepancies between the information furnished by the taxpayer and that available in SRI's data bases.

2.8 Tax Collection Control

With a view to improving the process of control and registration of tax revenues, Operating Agreements were promoted with the Central Bank and the Economy Ministry, so that all entities involved in this process could uniformly register tax codes, item-based classification, payment entries, process dates and other related elements.

In order to monitor revenues from foreign trade, specific tax codes were opened and a daily information system was established regarding values and collecting banks. All tax revenues are entered directly into SRI's account, which upon performing the banking reconciliation, are transferred to the single account of the treasury.

2.9 Recovery

The process of collection management comprises debt management, persuasive and coercive collection. It is supported by the interface with invoicing systems for the update of the “white list” and the control of delinquency.

Rejected debits of special taxpayers, that is, of taxpayers who have submitted their tax returns and do not have funds in their bank accounts to cover their tax obligations, are monitored through the system; in addition, portfolio-recovery procedures and strategies have been established, which allow to assess the risk profile of each taxpayer.

Currently, the Collection management is supported by policies and procedures, qualified staff, depurated portfolio and a wholly automatized system.

2.10 Accounting

Accounting has to do with the institution’s operating management and fiscal management; the latter comprises financial control of rights and obligations deriving from tax management, that is, from the public treasury and taxpayers. This accounting is generated through the interfaces among the systems of tax returns, tax revenues, collection, tax refunds, claims, contingencies, credit notes, among the main ones.

2.11 Information Technology

Unyielding efforts have been employed in the design and implantation of a single technological platform and to fit the organization with the necessary resources for operating and exploiting its data bases.

The processes, operations and transactions performed by the SRI, both internally and with taxpayers, are automatized. Each officer has a PC connected on-line. It has been strongly invested in both equipment and software, as well as in staff training regarding the use of new information technology tools.

The SRI’s IT platform is based upon the principles of high-availability, high processing capacity, escalation, service-friendly feature, reliability and security; with an open architecture integrated through Unix operating system, Oracle data base and access via the Internet and Intranet.

Thanks to this platform, tax management has been able to provide, among other advantages:

- Consolidation of data to avoid redundancy and to ensure integrity.
- Validation of system's functionality, as per user's requirements.
- Access to applications and data for the entire organization, at a national level.
- Information management tools for executive level decision-making, through the use of tools such as Data Warehouse, Discoverer and Workflow, and business intelligence for the preparation of predictability models of taxpayers' behavior.
- Guaranty of information security.

Also, it has allowed the management of all employees nationwide, with the same tools and applications.

A key element for providing the cited services, and an essential requirement of the Intranet, is the communications network that is in full operations, and which interconnects all regional and provincial offices disseminated throughout the national territory.

To facilitate tax administration's operating de-concentration, it has been necessary to implant a communications system that guarantees on-line taxpayer's services in real time.

The SRI's data base has been growing in line with the organization's needs, and adapting to the technological development. Also in operations is an IT security system that applies security policies.

Information on the Tax Administration can be obtained at the electronic address www.sri.gov.ec, related to its organization, tax regulations, statistics, processes (RUC, invoicing, tax returns, vehicle registration, etc.), some of which are interactive and targeted at facilitating compliance with tax obligations.

Within the frame of the responsibility entrusted to SRI by the Law, regarding the structuring and management of a foreign trade data base, and on account of the technological development attained by the Entity, it was executed a specific project intended for the IT standardization of procedures and the interconnection of 15 State's institutions that grant export and import licenses of merchandise ([e-government](#)), whose main objectives are:

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- To provide citizens with a tool that allows them to interact through the Internet with the Public Institutions involved in the foreign trade process.
- To consolidate information sources so as to create a foreign trade data base.
- To control compliance of foreign trade regulations and the OMC's agreements.

The strategy followed in technology has made for significant savings in staff and money.

3. TAX CULTURE AND DISSEMINATION

The Internal Revenue Service has not required big investments in the dissemination of its functions and activities. Its institutional image has been taking form and strengthening over the last years, as a result of a responsible fulfillment of its obligations. The respect for the citizenship, the strict application of the Law, the respectful service rendered to taxpayers and management integrity has been the main factors attributable for its positioning in society.

It has been mainly focused on driving an extensive tax culture program in the society. On this regard, it should be underlined the project that is being applied in the educational area, which began with the celebration of an agreement with the Ministry of Education and Culture.

As we understand it, Tax Culture:

- Is the civic-fiscal behavior of a citizen.
- Implies acknowledging that living in a society conveys obligations and rights.
- Is in direct relationship with the society's commitment towards achieving common well-being.
- Assumes taxpayers' capacity to demand answerability.

Therefore, certain essential principles have been maintained in relation to citizens:

- The tax administration is open to dialogue with a view to ensuring tax compliance.
- Compliance is strengthened when political maneuvering is set aside.

- Answerability increases confidence in the tax system and improves compliance.
- Taxes are part of the integrated system of wealth re-distribution.
- The coordination between the government policy and the Tax Administration fosters taxpayers' compliance.
- The confidentiality of tax information increases taxpayers' trust.

3.1 Physical Infrastructure: Basic Respect for the Citizen

At the very beginnings of my office at the Internal Revenue Service, I set out to visit all the localities in which the Institution had offices; in this way, it was hardly difficult to confirm the deplorable conditions of the Tax Administration at the time. And so in my capacity of public administrator, I realized the urgency of transforming the institutional image in the whole country, until we would be able to project to the society a sense of respect and dignity, a decorous and encouraging relationship between taxpayers and the administration.

In this sense, a significant work of construction and fitting of premises was carried out in the whole country, which, added to a permanent training of officers, has allowed to set up an excellence scheme for taxpayers' assistance.

The fitting works in offices, both in the headquarters and in regional and provincial offices, were based upon standardization and homogenization criteria, targeted at projecting one and the same corporate image nationwide. In this sense, all offices of the SRI have spaces specially designed and equipped for taxpayers' service, tax advisory, training, reception and general information.

All processes involving the relationship with the public are operated through an automatic system of queue assistance (Q-matic), which guarantees speed, timeliness, efficiency, time saving, and suppresses discretionary judgment of officers.

Working towards an optimum tax system to support the promotion of tax culture has proven the right vision.

Any economic system must pursue freedom, common well-being and justice; in order to collaborate to the achievement of this objective, the tax system, as a determining element, must abide by the following principles:

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- **Simplicity:** low-cost operations to avoid “indirect fiscal pressure”.
- **Sufficiency:** must try to cover expenses of the Government’s budget.
- **Fairness:** must clearly incorporate the principles of generality, equality and progression.
- **Impartiality:** must no interfere with economic agents’ decisions.
- **Flexibility:** must adapt to the evolution and changes in the economy.

Finally, I would like to conclude by saying that the society’s commitment towards achieving fiscal balance is a key element for macroeconomic stability; and the latter, in turn, allows economic agents to see their efforts repaid in an increase of net wealth.

Case study

TOPIC 1.2

CONTROL: MEASUREMENT, PREVENTION AND ADJUSTMENT OF TAXPAYERS

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Internal Revenue Service - SII
(Chile)

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1. INTRODUCTION

The control, understood as the measurement, prevention, and adjustment of the behavior of taxpayers regarding their tax obligations, is addressed by the Internal Revenue Service from its strategic conception, through long-term planning in which the Mission, Vision, and Strategic Objectives of the Institution has been defined. Based on those definitions, a Management Model with precise functionalities and definitions that determine the operating directives of the same was designed. The Strategic Planning process, which culminated in the year 2003, conditions the organization as a whole, establishing responsibilities and tasks that must be developed, measured, and evaluated in time.

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The Fiscal Intelligence carried out at the Internal Revenue Service (SII) is conceived from three perspectives: one preventive, one reactive, and a third proactive or with a more analytical character. Each of these perspectives is aligned functionally and structurally under the framework delivered by the Strategic Planning and the norms governing the SII. The preventive perspective finds its representation in the verification processes, those that have been defined and adjusted in such manner as to facilitate voluntary tax compliance of taxpayers and to reduce room for tax evasion.

Knowing segments of taxpayers is important for the verification, because it favors the detection of new forms of tax evasion. Once proven, those new forms of tax evasion may become systematic controls made through massive processes, addressing control over a larger group of taxpayers.

The measurement and control mechanism have made it possible to set goals for the processes and review their compliance at the institutional level or by team work.

Technological development delivers to us the tools that are used for facilitating voluntary tax compliance, contributing to the modernization of the state and economic development of the country. Along these lines, the SII participates in projects implementing the utilization of new information technologies with models that bring us closer to taxpayers in a direct and indirect manner. These models reduce processing time and room for informality. An example with great impact in all agents of the country's economy has been the electronic invoice, which has made it possible to connect different economic agents with the SII. In addition, a process that has entailed a series of benefits both for taxpayers and for the very Tax Administration has been automated.

We will delve into these topics, among others, in the pages to come.

2. FORMULATION OF THE STRATEGIC PLAN

The Internal Taxation System is one of the State's verification institutions. In accordance with the Law, its functions are the "application and verification of all domestic taxes currently in force or that may be created, contributions or of any other nature in which the State Treasury has an interest and whose control is not especially tasked by law upon a different authority." The Tax Code and the Service's Basic Law determine how it will carry out its activities. The Internal Revenue Service is responsible for:

- interpreting administratively the tax provisions, setting norms, imparting instructions, and giving orders so as to ensure their application and verification,
- oversee compliance with tax laws it has been tasked with overseeing; handing and issuing decisions in a court-like fashion as a first level court for claims filed by taxpayers and assuming the defense of the State Treasury before the Courts of Justice in the trials over the application and interpretation of tax laws,
- as regards taxpayers, it must generate tax awareness, inform about the destination of taxes, and the penalties taxpayers subject themselves to by failing to comply with their obligations.

Beginning in the year 2003 a process began in which the Service Director, the Deputy Directors and Department Heads, participated in different activities aimed at defining the Service's Strategic Plan for the 2003 - 2006 period. This plan had to reflect and contain explicitly the vision - where do we want to go - as well as the three pillars of management that the Director proposed when he arrived. These issues have been agreed on in the last few years, allowing for the definition of objectives, strategies, projects, and programs in the different businesses, processes, and products that the Service conducts.

This process of strategic planning for the first time incorporated a participation body involving all officials, who were able to know and measure the strategies. They presented their observations, agreements or disagreements with the proposals that have been made.

As part of the strategic planning process, the Mission, Vision, and Strategic Objectives of the Service were defined, which we present below.

2.1. Mission, Vision, and Strategic Objectives

Mission

"The Internal Revenue Service is responsible for administering with equity the internal taxation system, facilitating and overseeing tax compliance, furthering the reduction of compliance costs, and promoting the modernization of the State and the on-line tax administration; the above is done to strengthen the level of tax compliance and the economic development of Chile and its people."

Vision

“The SII will be recognized as one of the most modern tax administrations in the world; with high and growing levels of efficiency in their work, which operates under quality standards that constitute a model for similar institutions; effectively contributing to the country’s economic development; leading the State modernization process; and whose officials are fully competent, honest, and committed with the strategic objectives of the organization. Taxpayers will perceive that the service the SII provides to them is given in an environment of justice and fairness, which makes it easier for them to voluntarily comply with their tax obligations; as a result of this, the country shows levels of tax compliance that are an example internationally.”

Strategic Objectives

1. Contributing to the modernization of the State and to the economic development of Chile.
2. Maximizing and easing voluntary compliance with tax obligations.
3. Minimizing evasion and taking actions aimed at reducing tax avoidance.
4. Furthering the education of human resources at the Service.
5. Furthering the continued modernization of the Internal Taxation System, by making intensive use of the new information and communication technologies.

2.2. SII Business Model

Traditionally, the SII used a management model that combined business visions by taxes and functions. Thus, normally the function of Verification (and within it, the verification of Income Taxes and VAT) was considered separately from the function of Appraisals (comprising the relationship with the administration of real estate registries and their owners), and the Legal function (comprising the work of the Tax Courts, the defense of the SII in the face of legal actions filed against it, the lodging of complaints over tax offenses, and legal advisory services to the Institution). In addition, the function of Information Technology, Human Resources, Norms, Administration and Finance were considered practically on the same level. On the other hand, at the organization level, there was always an expression of management at the territorial level — the Regional Directorates. These offices were assigned responsibility for carrying out the operating functions of the Service, while the National Directorate was responsible for defining policies and supervising the activities of operating units, as well as assistance and support areas.

This way of understanding the Service's activity generated a growing maladjustment with the new orientations regarding management, which consider a global and integrated overview of the institutional work and stress the accomplishments of results by line of business. It assumes that for obtaining global results it becomes necessary to integrate the results of the complete processes at the regional and central level, beyond each unit participating in its creation. On the other hand, it became necessary to integrate the vision of results – especially regarding the function of verification – a series of related actions that if in fact demanded an important set of resources, they could not be associated with results of direct management of the function. This is the case of actions related to facilitating compliance with tax obligations, especially reducing their monetary cost and the time requires for the taxpayer.

Thus, the need to differentiate the work of the Service by type of function emerged, distinguishing between lines of support and contribution, so as to have a more segmented vision of the objectives and associate the responsibility of its accomplishment with the different responsible units.

Below we present the management model under which SII processes are coordinated:

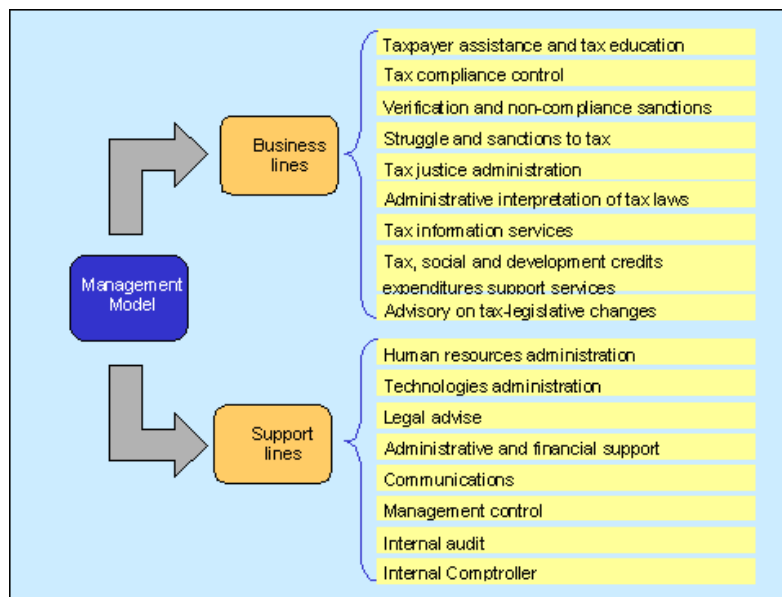


Figure 1: SII Management Model

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The model presents two large groupings of functions of lines of business, where direct actions are developed to facilitate, oversee, and penalize tax compliance of taxpayers and those of support, charged with providing services inside the Institution. The purpose of this is to strengthen the actions of the lines of business. This way, the SII defined its functions and aligned itself with compliance with the objectives set forth in its Strategic Plan.

Below we describe each of the functions indicated in the foregoing model.

Lines of Business

Taxpayer assistance and tax education

The objective of this function is to assist taxpayers so they have a better knowledge of their tax obligations, facilitating compliance of the same and relating in the best possible manner with the different Service branches. Its action is geared toward the totality of taxpayers and is especially relevant for those who voluntarily comply with their obligations.

Control of tax compliance

The objective of this function is to take precaution and insure that all taxpayers comply with their tax obligations, in the terms that the legislation and administrative procedures indicate and to increase the segment of taxpayers who comply voluntarily with their tax obligations, whether by their own conviction or moved by actions of the Service.

In addition, it administers massive processes associated with those obligations, such as preparation and processing of the tax returns, generation of consistency and compliance validation controls.

Verification and penalty for tax noncompliance

The objective of this function is to detect noncompliance with tax obligations of taxpayers, resolve the differences, pay undeclared or undelivered taxes, and apply the penalties that must be applied.

Fight and sanction against tax fraud

The objective of this function is to exercise and carry out before Justice Tribunals the pre-judicial and judicial actions against those responsible for engaging in administrative and criminal offenses.

Tax justice administration

The objective of this function is to resolve the claims of taxpayers in an atmosphere of legality and justice, through resolutions, reports, report documents, appraisals, assessments or payments that are made to the Service.

Administrative interpretation of tax laws

The objective of this function – in use of the powers of interpretation that the law grants upon the Director – is to interpret the laws and norms under its purview to achieve an adequate functioning of the Tax Administration. This service of interpretation points to achieving an equitable and fair compliance with tax obligations by taxpayers, being originated at the taxpayer or the Service's initiative, based on specific requirements by taxpayers.

Tax information services

The purpose of this function is to inform on the existing norms (legal, administrative, court decisions, procedures), which is fundamental so taxpayers can comply voluntarily with their obligations.

Support services to tax, social, and development credit expense

The objective of this function is to inform, without breaching the obligation of tax secrecy, tax institutions that manage subsidies, credits, or different types of benefits and that require the corroboration of data and checking of information of the taxpayer stored in the SII databases.

Providing advice on legislative – taxation changes

Providing advice, through the Ministry of Finance, on tax matters on which it is required to establish the feasibility of the application or modification of the existing norms, taking into account the possible

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consequences of the changes in taxpayers, the economy, and mainly in tax revenues. With this, effective support can be obtained toward containing tax evasion and contributing toward closing the evasion gaps of the taxation system.

Lines of Support

Administration of human resources

Its purpose is to have the adequate human resources that the Service needs, selecting and hiring personnel whenever it is required, training and permanently updating the existing personnel, and advising the management and supervisory bodies in the evaluation of the performance of the officials under its control. In addition, it must support the section leaders to establish a satisfactory atmosphere for work relations, motivate officials ensuring the existence of career officials, the welfare of workers, and seek an ethical and transparent behavior in its performance. In addition, it must fulfill the role of liaison with section leaders and official participation bodies, such as employee professional associations.

Administration of technologies

The objective of this function is to have, administer, and protect the computer and communication infrastructure of the Service, to provide levels of guaranteed service to internal users and taxpayers, to oversee the permanent updating of information technology and the rational introduction of state-of-the-art technology in the organization, to protect the integrity and safeguard the Service's databases, and to support internal and external users so they can use the necessary applications for doing their work or having the necessary services.

Legal counseling

Its objective is to provide legal support to Service officials in order to make their actions conform to the law, as well as to defend the Institution and officials against protection recourses or complaints lodged by taxpayers against them.

Financial and administrative support

The objective of this function is to provide support to the other areas of the SII in the proposition and handling of physical infrastructure resources, as well as to obtain the necessary goods and services for carrying out the different operations to be performed. Moreover, it is responsible for the administration of the remuneration payment and for providing and protecting the financial resources assigned to the Service.

Communications

The purpose of this function is to provide the business areas of the Service with specialized assistance in the preparation, operation, and dissemination of instruments to assist taxpayers, as well as to provide outside communication media with the contents or messages that facilitate or encourage tax compliance by taxpayers. Moreover, it must maintain officials informed on the changes adopted regarding administrative, regulatory, and legal aspects.

Control of management

Its basic purpose is to provide the organization with instruments, tools, criteria, methodologies, and work styles, which will contribute permanently to a significant improvement of the institution's management in all areas of its work. In addition, it must deliver support elements to all bodies of the Institution for making decisions in a timely fashion, going from top management to operating section leaders.

Internal auditing

The purpose of this function is to control in a systematic and random manner compliance with the decision procedure and rules, both for the business lines and for support lines.

Internal Comptroller's Office

Its purpose is to oversee the observance of the values and principles of the organization, mainly developing prevention activities of behaviors that differ from or violate those values and principles. If this were the

case, they must investigate and determine individual responsibilities and penalize officials engaged in such behavior

3. FISCAL INTELLIGENCE AND VERIFICATION PROCESSES

3.1. Fiscal Intelligence

The Fiscal Intelligence at the Internal Revenue Service is conceived in three lines of action: one preventive, one reactive, and a third proactive or analytical. The implementation of these is developed in different operating areas, as can be seen in the following figure:

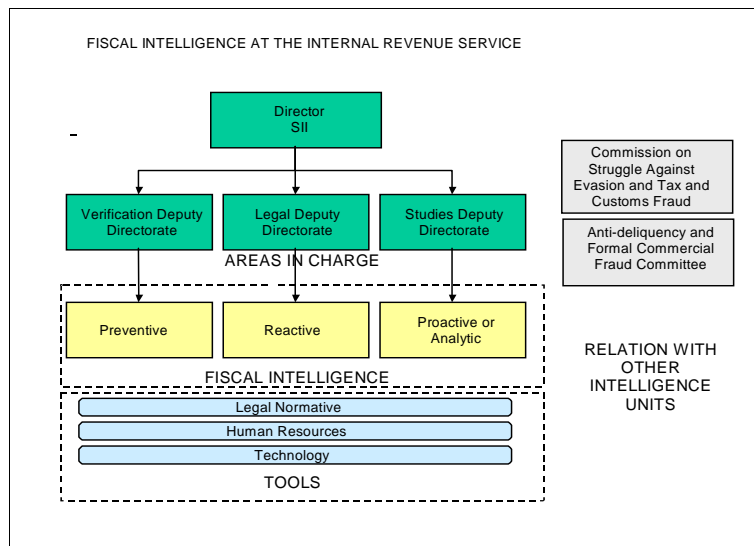


Figure 2: Fiscal Intelligence at the SII

The objectives of the Preventive Fiscal Intelligence are:

1. To detect new evasion figures and prepare and implement verification plans.
2. To coordinate the implementation of the verification plans with territorial operating units (Regional Directorates).
3. To fight informal commerce and piracy, detecting individuals who operate outside of domestic fiscal taxation provisions.
4. To study technical avoidance and/or evasion problems associated with specific groups of taxpayers; and to propose the legal and administrative changes to perfect the norm.

This line of intelligence falls under the Verification Deputy Director's Office, which is responsible for studying and proposing norms and instructions for verification of taxes and seeking that those functions are as efficient as possible. Moreover, it plans, evaluates, and controls the development and quality of the verification activities; defines and delivers operating criteria for verifying the different economic sectors; proposes norms and administrative and operating procedures to carry out their mission; answers technical queries; and evaluates the performance of the Regional Directorates in topics under its control. Specifically, the areas under the Deputy Verification Director's Office in which Fiscal Intelligence is done are:

1. **Selective and International Verification Department:** the purpose of this Department is to account for the selective and international taxation of all taxpayers under the jurisdiction of the Chilean tax laws. Its specific objectives are:
 - a. To coordinate the implementation of the annual plan of Selective Verification with the remaining areas of the Deputy Director's Office and the Regional Directorates.
 - b. To prepare and generate selective verification plans for the national and international areas, controlling their implementation.
 - c. To study technical avoidance and/or evasion problems and propose the legal or administrative changes to perfect the norm.
 - d. To supervise the verification and evaluate the development of the verification activities of the Regional Directorates and the Large Taxpayers' Directorate in the area of domestic and international fiscal taxation; and,
 - e. To design, develop, and build tools to generate control statistics and management indicators.

2. **Office for the Verification of Nonprofit Organizations and Fiscal Entities:** its main functions are:
 - a. To propose and coordinate programs to verify tax compliance of nonprofit organizations (OSFL) and Fiscal Entities;
 - b. To propose administrative norms, instructions, and measures of tax behavior of the OSLF and Fiscal Entities that are geared toward facilitating tax compliance and controlling tax evasion;

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- c. To generate and update permanently the characterization and group of the corresponding segment of taxpayers.
3. **Special Cases Office:** the purpose of this office is to verify taxpayers who by the relevance of their characteristics require a rigorous and specialized review, which is currently directed by the Deputy Director's Office. In addition, it is responsible for implementing pilot verification plans on certain evasion figures as regards groups of specific taxpayers, which allow for obtaining information and reaching relevant conclusions for subsequent systematization at the national and regional verification level.
4. **Tax Fraud Prevention Office:** its goal is to identify individuals who operate outside of domestic fiscal taxation provisions, who often times have not submitted beginning of operations notifications to the SII. . The main activity of this Office is to strengthen the verification capacity of the Deputy Director's Office regarding organizations and/or individuals who carry out illegal activities.

Another conception of Fiscal Intelligence at the SII is related to the reactive aspect, which is designed to:

1. Strengthen the detection and analysis of tax offenses.
2. Increase the coordination, oversight, and feedback in the area of tax offenses with other SII units.
3. Analyze the events detected in the ordinary work of verification, or the events otherwise learned, as can be Official Letters from Courts, communications from the Investigation Police and/or Police Department; reports from third parties appearing as elements that may lead one to conclude the utilization of falsified documentation or its wrongful use, and behaviors related to illegal trade.
4. Propose and sustain the exercise of criminal action before the competent Justice Courts, as a result of the events detected.

Reactive Fiscal Intelligence is in charge of the Legal Deputy Director's Office, which not only analyzes court decisions from Justice Courts and advises the Director in tax-related matters, but also is in charge of the SII's legal defense in the face of recourses lodged by taxpayers against the Institution. In addition, it prepares and processes the lodging

of complaints against taxpayers for tax-related offenses. Its Tax Offense Investigation Department, Prosecutor's Office Against False Invoices, and the Illegal Trade Verification Office coordinate their work in order to carry out the aforementioned work.

Below we provide further information on each of these Areas:

1. **Tax Offense Investigation Department:** its mission is to direct the detection, analysis, and gathering of background information related to tax offense cases, and to coordinate and oversee the different SII units in this same area. Its main objectives are to:
 - a. Strengthen the detection and analysis of tax offenses.
 - b. Increase the coordination, oversight, and feedback in the field of tax offenses with other SII units.
2. **Prosecutor's Office Against False Invoices:** it is a legal office with competence over the entire national territory that analyzes and determines whether the background information presented by the Regional Directorates on the situations in which the use of falsified documentation and forgery of seals is checked, warrant or not the lodging of legal action before Courts of Justice.

Its principal functions are to:

- a. Analyze the events detected in the ordinary work of verification carried out by the SII, or the events otherwise learned, such as Official Letters from Courts, communications from the Investigation Police and/or Chilean Police Department; reports from third parties appearing as elements that may lead one to conclude the utilization of falsified documentation or its wrongful use or the forgery of SII, its wrongful use, the presentation of sworn declarations in which lies are told, inasmuch as these behaviors allow or make it possible to engage in tax evasion practices.
- b. Propose and sustain the exercise of criminal action before competent Courts of Justice, as a result of the events detected, coordinating its work in this case with the corresponding Regional Directorates.
- c. Coordinate and collaborate with the actions of different organizations and entities, including the attorneys of this Office

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at the national level, police and investigation organizations, State Defense Council, Tax Offense Investigation Department, Legal Defense Department, and the Internal Comptroller's Office.

3. **Illegal Trade Verification Office:** the purpose of this office is to present legal actions before competent Courts as regards figures that may represent offenses in the exercise of illegal trade or illegal industry, as well as trade activities involving merchandise without fulfilling the legal requirements pertaining to the declaration and payment of taxes that levy production or trade.

The specific functions of this Office are to:

- a. Analyze the events detected in the ordinary work of verification that is carried out by the SII, or the events otherwise learned, such as Official Letters from Courts, communications from the Investigation Police and/or Chilean Police Department; reports from third parties appearing as indications of the behaviors referred to in paragraphs 8° or 9° of Article 97° of the Tax Code.
- b. Propose and sustain the exercise of criminal action before competent authorities, as a result of the events detected, coordinating in this case with the corresponding Regional Directors.
- c. Coordinate and collaborate with different organizations and institutions such as SII attorneys, police and investigation organizations, Tax Offense Investigation Department, Legal Defense Department and Internal Comptroller's Office, and the Departments of Verification and Regional Resolutions as well as other SII Operating Units.

The Deputy Director's Office for Studies is in charge of Proactive or analytic Fiscal Intelligence. The objectives from the perspective of intelligence are:

1. To analyze and study the data and statistics coming from the verification processes and from other external sources.
2. To establish procedures that allow for the detection of taxpayers with risk profiles, which serve as support to the Verification Deputy Director's Office.
3. To quantify tax evasion and to measure the impact SII actions have on tax evasion.

In addition to the tax-economic studies and the tax evasion measurement studies, this Deputy Director's Office prepares, studies, and investigates the statistics on tax revenues, their fluctuations and their relationship with different economic activities, for the purpose of interpreting and explaining their variations. In addition, it prepares the statistics that the SII requires, oversees the simplification, uniformity, coordination, and expediting of methods and procedures, analyzes the development of its work, its costs and productivity for projecting its effective operation.

Fiscal Intelligence at the SII is based on aspects ranging from legal norms to highly qualified human resources, to the use of information technologies. In summary, the following aspects can be highlighted:

1. Basic legislation
 - a. Decree Law N° 7 of 1980, which establishes the text of the Basic Law of the Internal Revenue Service,
 - b. Decree Law N° 830 of 1974 on the Tax Code,
 - c. Decree Law N° 824 of 1974 on the Income Tax,
 - d. Decree Law N° 825 of 1974 on the Sales and Service Tax,
 - e. Law N° 16.271 on the tax on Inheritance, Allowances, and Donations,
 - f. Decree Law N° 3.475 of 1980 on the Stamp and Postage Stamp tax.

2. HHRR
 - a. Strict selection of officials comprising the SII,
 - b. Continued training in matters related to the work of each official position.

3. Technology
 - a. Use of the Internet in the most important processes, from which data provided by taxpayers themselves are obtained.
 - b. High standards of security for the handling of information, both internally and externally.
 - c. Continued technological innovation in the pursuit of an improvement in the verification and fiscal intelligence processes.

3.2. Global Vision of the Verification Processes

As was recently indicated, the Preventive Fiscal Intelligence, through the functions of Control of Tax Compliance and Verification and Penalties for Noncompliance fall under the purview of the Verification Deputy Director's Office, which must administer different verification processes with the purpose of insuring that most taxpayers comply with their tax obligations.

The figure below presents a schematic on how, generally speaking, verification processes are carried out on the totality of taxpayers

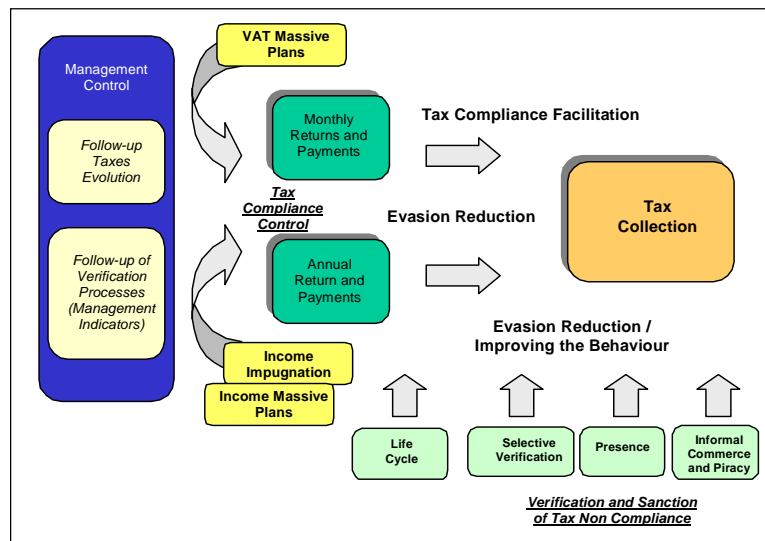


Figure 3: Schematic on Processes

The totality of taxpayers must fulfill their monthly (tax return filing and VAT payment, monthly withholdings, etc.) and annual (tax return filing and income tax payment, others) tax obligations. Compliance with these obligations is done through “Self-declaration” procedures, that is, in a voluntary manner the taxpayer determines the amounts, declaring and paying (or requesting a refund) based on the backup information for their operations and subject to the existing tax legislation. In this task, the SII promotes mechanisms and tools that maximize the voluntary action of taxpayers.

Compliance with these obligations gives rise to direct collection of taxes, which is monitored on a monthly basis.

In the tax return filing and monthly payment processes exchanges of information have been improved giving rise to massive verification plans, which are aimed at detecting irregularities and modifying taxpayers' behavior. Examples of these are the plans called "*Nonfilers*," through which those taxpayers that the SII believes – based on its information – should have declared and did not do so are notified; "*Plan Close-fitting*," which seeks to notify taxpayers who have a ratio between their credits and debts very close to 1, which would seem to indicate that they do not have any profits resulting from the exploitation of their business.

In the same manner, the annual tax return or income process has been improved with internal and external crosses of information, which challenges the tax return filed by the taxpayers. This may result in the withholding of amounts requested involving tax refunds or in notifying the taxpayer for a validation of background information. In it, the taxpayer must present the backup information that will allow them to reverse the challenge.

In addition to these processes, selective verification actions are carried out, which are aimed at investigating certain evasion figures and generating verification programs for specific groups of taxpayers. These audits last longer and in many cases allow for, in addition to validating the hypothesis that gave rise to the program, identifying other figures that merit being analyzed. Thus, when a figure involving evasion is detected and corroborated, which makes the administration presume a generalized behavior in taxpayers, it is possible to systematize their control through massive verification processes.

Together with the aforementioned verification processes, which by and large are carried out at SII offices, "*Verification Presential*" actions are carried out. These actions consist of the on the ground review conducted by verification officials of compliance with the obligations of issue of sale documents, keeping of accounting records, transportation of merchandise with mandatory documentation, among others; at the facilities of the taxpayer, points of sale, roads, fairs, and other types of establishment.

Informal Commerce and Piracy constitute another focal point of evasion that requires special dedication because those who operate on these markets do not declare their operations and this constitutes disloyal competition against those who comply with their tax obligations, remaining in clandestinity. To that end, the Tax Fraud Prevention Office

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was established, the priority of which is the development of verification plans that will enable authorities to prevent fraud against the State Treasury, detecting and dismantling the existing networks in coordination with other public and private organizations.

Now, it should be pointed out that to begin exploiting a commercial activity, every taxpayer must register with the SII databases. Their "Lifecycle" begins when a taxpayer reports the start of activities and requests a Unique Taxpayer Number and ends with the notice of end of activities. In addition, through time the taxpayer must report the modifications they experience in the exercise of their economic activity, such as changes of residence or expansions of their commercial activity, among others. Regarding these topics, validations are performed to give certainty to the information supplied by the taxpayer, for instance on the ground verifications of the necessary facilities for carrying out the aforementioned activity. The SII must maintain a registration of taxpayers as complete and up-to-date as possible, because it will facilitate the generation of different types of analyses. Taxpayers must also request periodically the authorization of necessary documents for conducting their activity and the SII may restrict it through annotations if there are outstanding processes involving a specific taxpayer.

In support of the aforementioned verification actions, reliable and objective information is required, allowing the administration to make timely decisions. Among them, detailed information on the Evolution of Taxes is required, giving raise to investigation programs and Management Indicators for each of the processes carried out.

Below we present each of the mentioned verification processes.

3.3. Description of Processes

Monthly Mass Processes

Consists in the mass administration, processing and examination of compliance with taxes subject to a monthly return and payment, whereby it is pursued to facilitate such tax compliance and to perform a follow-up by means of information crosscheck against internal and external sources, upon which are generated examination plans of a great number of taxpayers.

The chart below summarizes the information of the years 2004 and 2003, respectively.

Monthly Tax Return and Payment Processes, and Mass Examination Plans

F29. VAT Return and Payment, Withholdings and Provisions		Year		2.004	2.003
Amount Declared and Paid	Millions of Pesos		6.286.943		5.388.607
	Millions of USD		10.912		9.352
Number of Annual Forms	Nº of Tax Returns		10.619.231		10.190.235
Monthly Average of Forms	Nº Dec. / 12		884.936		849.186
Percentage of Returns via the Internet	%		36,2%		15,4%
Percentage of Declared Amounts via the Internet	%		77,7%		61,1%

F50. Return and Payment of Other Taxes.		Year		2.004	2.003
Amount Declared and Paid	Millions of Pesos		1.547.203		1.455.532
	Millions of USD		2.685		2.526
Number of Annual Forms	Nº of Tax Returns		112.666		120.075
Monthly Average of Forms	Nº Dec. / 12		9.389		10.006

Taxpayers Notified through Mass Programs		2004
Non-affiant Program		212.748
Tax Difference Programs		59.772
Matched Return Program (debits = credits)		12.572
Other Mass Programs		50.034

To facilitate compliance, measures have been implemented with the aim that taxpayers perform their tax return and payment through the Internet, which is reflected in the year-to-year increase in the percentage of returns submitted through this means, as well as in paid amounts. In addition to facilitating compliance, the quantity of tax returns is directly reduced of paper returns that contain balance errors; instantaneous follow-up information is generated and times and transcription errors are cut down.

Once these monthly tax return processes are completed, a crosscheck is performed to check compliance with tax obligations, and if any inconsistency or any kind of non-performance is detected, taxpayers are notified so that they can make corrections or go to the SII's offices to clear them up. Every year, nearly 250,000 taxpayers are notified throughout the country. The background review process is conducted based upon instructive material, with the aim that all procedures are the same for all notified taxpayers. If any discrepancies are detected, taxpayer must remit the difference and pay the corresponding fines. In the case that taxpayer does not appear or denies charges, the payable amounts will be transferred, which will generate annotations in the SII's systems, so as to impose restrictions on the taxpayer until the situation is corrected. The highest-impact restriction is the authorization of documents (stamping), needed to carry out the business activity.

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Income Mass Processes

Consists in the mass administration, processing and examination of taxes affecting income earned by taxpayers, as is declared each year in the month of April.

This process intends to achieve voluntary tax compliance of taxpayers by means of mechanisms that facilitate, verify and induce the correct tax return and payment and the discounts of pertaining credits.

The chart below summarizes the information of the processes developed in the years 2005, 2004 and 2003.

Income Mass Processes	Year	2.005	2.004	2.003
	Amount Paid	Millions of \$	752.682	472.436
	Millions of USD	1.306	820	697
Requested Refund	Millions of de \$	-993.156	-1.118.535	-940.763
	Millions of USD	-1.724	-1.941	-1.633
Returns	Number	2.060.672	2.005.108	2.041.913
Returns performed through the Internet	%	96,3%	83,0%	68,7%
Challenged Tax Returns	Number	256.261	355.644	336.531
	%	12,4%	17,7%	16,5%
Taxpayers who confirmed the income tax return proposal	Number	686.985		
Taxpayers who modified the income tax return proposal	Number	239.240		

In April each year, over 2 million income tax returns are submitted, in which taxpayers may request the refund of taxes already declared, pay taxes or else simply declare them with no associated refund or payment.

To facilitate compliance, and through the use of the greatest amount of information available from taxpayers, deriving from diverse information sources, among which are the tax returns submitted by financial institutions and other taxpayers, the SII prepares and posts on the Internet an income tax return proposal for some taxpayers, so that they complete it (if applicable) or approve it. During "2005 Income Operation", of the total tax returns submitted via the Internet, more than 900 thousand taxpayers presented tax returns by using the tax return proposal prepared by the SII. As in the process described above, there are indirect effects that benefit taxpayers and the SII upon entering tax returns through the Internet.

Once taxpayers' tax return process is concluded, diverse crosschecks are performed to validate the registered information, and those tax return rendered as having inconsistencies are challenged. In the process carried out in April 2005, nearly 250,000 tax returns were challenged. Part of them are released as the SII receives more information or as taxpayers correct their tax returns; for all other cases,

taxpayers are notified during the year, and they must appear at the SII's offices to clarify, widen, rectify or confirm the content of their tax returns.

Crosschecks validate different tax evasion types that, over time, have become effective systematized controls for the Income Operation. Thus, evasion types detected in selected examinations are controlled through the Income Operation in a systematic fashion, by means of standardized procedures that cover a great portion of taxpayers.

The chart below shows the main inconsistencies detected in 2005 Income Operation, in comparison with 2004.

Main Inconsistencies detected in 2005 Income Operation, versus 2004	2.005	2.004
Taxpayers recording FUT inconsistencies	50.296	177.127
Credits for 1 st Category Taxes excessively requested	28.601	32.212
Taxpayers recording inconsistencies for use of credit for training expenses	14.037	106.491
Credits against the 1 st Category tax	11.687	9.694
Control of Income from Fees, Section 42, N°2	7.338	7.706
Control of Withdrawals, Dividends distributed by S.A. and C.P.A. and Personal Property Capital	6.114	5.465
Taxpayers excessively reducing interest paid for mortgage loans.	4.994	10.264

The first three inconsistencies clearly show how taxpayer modified his/her behavior, resulting in a dramatical reduction in the number of challenges.

As new evasion types are detected through mass crosschecks in the Income Operation, new processes are created or current ones are adjusted, so as to cover a greater number of taxpayers in the analysis.

Selective Examination Process

Consists in the development of audit programs targeted at checking voluntary compliance of specific groups of taxpayers that meet certain selection criteria.

The Department of Selective and International Examination (DFSI, *in Spanish*), as already mentioned, delve into new tax evasion types and generate examination programs to be developed by the country's Regional Directorates (operating units). These programs, which include a lower number of examinations in comparison with mass processes, are very human-resource intensive and length extensive (an average of four - six months). In addition, each program includes an instruction detailing the inspection to be performed, which is intended to verify the hypothetical existence of one or more evasion types.

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Besides the examination programs delivered in a centralized fashion, each Regional Directorate is entitled to perform its own audits, called “Emerging”, of taxpayers whose inconsistencies were detected in the daily operation conducted by the Regional Directorate or else, in the current inspections themselves.

The chart below summarizes selective examinations performed in 2004 and 2003.

Selective Examination	Year	2.004	2.003
	Completed Examinations	Number	11.630
Yield	Millions of \$	233.904	206.965
	Millions of USD	406	359
N° of Examinations	Number	276	276
N° of cases developed by examiner	Cases/examination	42	50
N° of examination programs entered in the year	Number	124	42
Average of cases per program	Cases/program	57	34

The DFSI segment the types of taxpayers in order to favor learning, knowledge accumulation and detection of new evasion types, as taxpayers modify their behavior. The areas comprising this unit are:

- Personal Income.
- International Operations.
- Large Sectors.
- Services.
- Industry, Transportation and Commerce.
- Special Systems.

In addition to the segmentation by business type, the SII divides taxpayers by size. In this way, a special unit called “Directorate of Large Taxpayers” examines the 1,500 largest taxpayers, who in total account for 35% of national revenues. This office carries out a permanent follow-up process over companies, which fall under this category on account of their sales levels. Big companies, in turn, are divided into national and international. Specialized groups of examiners are allocated these companies and are responsible for conducting specific examination tasks, which are outlined in the Control Plan of Tax Compliance (PCCT, in Spanish), specially designed for such purposes. This process of large taxpayers follow-up is being extended to other operating units, so as to incorporate a greater number of taxpayers.

A supporting mechanism of the Selective Examination action is the On-Line Denouncing System. Implemented since 2003, this system allows any person to file a denunciation with the SII via the Internet, regarding taxpayers who possibly are not complying properly with their

tax obligations, while also submitting back-up information. If applicable, these accusations are evaluated and investigated upon, always preserving the identity of the informer. This mechanism has made it possible to detect taxpayers who fail to comply with their tax obligations, as well as new evasion types, which can be then studied and originate examination programs, thus covering a greater number of taxpayers. Every year, approximately 1,500 denunciations are received through this system, 90% of which are derived from Selective Examination or Examination Presence processes.

Examination Presence

Consists in a permanent on-site review conducted by the officers of this Service, and is intended to verify compliance of tax obligations by taxpayers, especially as to the registration and issuance of documents. In addition, this type of actions is intended to induce voluntary tax compliance.

The chart below summarizes Examination Presence actions of 2004 and 2003.

Examination Presence	Year		2.004	2.003
	Controls of established business shops	Number		209.944
Coverage (Controls / Business Shops)	%		34,4%	
Road controls	Number		568.530	404.262
Controls of Registrations and Appraisals	Number		43.679	31.608
Number of hours used by examiners	Number		415.971	342.177
Number of equivalent examiners	Number		178	146
Number of violations detected	Number		27.720	25.846
Number of effective closing-downs	Number		7.649	8.399

In the case of examination presence actions, taxpayers are controlled for which no previous planning process has been outlined; that is, officers approach sectors to perform validations without previously knowing much of the background of these taxpayers. Main types of inspections are:

Controls of Established Shops: Inspections conducted by examiners at the business domicile of taxpayer (business shops, offices, factories, etc.), intended to verify the proper issuance and registration of documents.

Controls of Wholesale Fairs (cattle, vegetable-fruits, timber, etc.): Inspections conducted by examiners at wholesale points that gather input suppliers and buyers, intended to verify the correct issuance and registration of transactions.

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Mobile and Fixed Road Controls: Control performed by examiners of back-up documentation (invoices and delivery notes) of cargoes transported along public use roads.

Registration and Appraisals: Consists in visits to taxpayers performing sporadic business activities (artisanship fairs, Christmas fairs, real estate rentals on vacations, etc.), intended to verify their taxpayers' registration with the activity developed and to determine an estimation of sales and profit margins for tax purposes.

These controls are very necessary to fight informality of taxpayers. It is a preventive action, which is also targeted at educating taxpayers.

VAT Refunds

Consists in the different procedures upon which are generated money refunds on account of VAT-related payments. The taxpayer submits a refund request before the Service, and the latter may authorize, modify or reject such request, by means of previously established procedures. Contemplated Tax refunds are VAT Refunds to Exporters, Refunds for Changes of VAT Taxable Person and Refunds for Fixed Asset Investment.

Below is a summary of refunds performed in 2004 and 2003.

VAT Refunds	Year		2.004	2.003
	Amount of VAT Refunds to Exporters	Millions of \$	1.955.509	1.736.446
	Millions of USD	3.394	3.014	
Number of Refunds	Number	15.412	13.923	
	Number / 12	1.284	1.160	
Amount of Refunds for Change of Taxpayer	Millions of \$	20.872		
	Millions of USD	36		
Number of Refunds	Number	11.761		
	Number / 12	980		
Amount of Refunds for Fixed Asset Investment	Millions of \$	38.206		
	Millions of USD	66		
Number of Refunds	Number	390		
	Number / 12	33		

VAT refunds to exporters for credits associated with costs of sales of products or services abroad are the most relevant ones, and therefore, most important to be controlled. For this purpose, the SII has a workflow-type system whereby examiners authorize refunds. This system performs information crosschecks and validations in order to select the requests that are worth a more thorough review, which is performed by officers, specialized in this kind of operations.

Refunds for change of taxpayer correspond to the requests submitted by taxpayers who have been withheld of part or the whole VAT debit, and who request a refund upon being entitled to a credit balance when their earnings are considered. The “withholding agent” withholds and remits the withheld VAT.

Changes of taxpayers are established in those items in which it has been detected the existence of multiple irregularities or a great informality of transactions, which means that the operations are not being properly declared, thus generating a fiscal damage. In this way, part or the whole VAT is not paid by the buyer to the seller, but is withheld, declared and remitted to the Public Treasury.

Changes of taxpayers may be partial or total, depending on the estimation of the withheld person’s profit margins.

Main changes of taxpayers are: construction contractors, sellers of wheat, livestock, timber and scrap iron.

The condition of withholding agent is awarded to the main buyers of these products or services, which up to date amount to nearly 4,500 taxpayers.

Tax Fraud Prevention

Informal (secret or smuggling) trade and piracy are present in a great number of the world’s economies, generating economic and social losses, and therefore imposing the need to fight against them. This is why the SII makes high efforts to keep the fight against this problem going, by allocating personnel and resources to perform procedures of examination and on-site presence examination, intended to effectively practice the pertaining legal actions. In addition, it actively participates in the Public-Private Commission Against Illegal Trade, coordinated by the Ministry of the Interior in a centralized fashion. The coordination with other public offices and private sector’s representatives is essential to compile the backgrounds that may allow identifying criminal organizations operating in the illegal trade. Among the public and private departments that participate in the prevention and fight against this matter are: the National Customs Service, the *Carabineers* of Chile, the Investigative Police, the Attorney’s General Office, the National Consumer Advocacy Service, the Association of Phonographic Producers of Chile; the Chilean Book Chamber, the Association of Software Distributors, the Anti-piracy National Council, among others.

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Since the beginning of 2002, the SII has two units created to fight against illegal trade: the Office of Fiscal Fraud Prevention (OPFF, *in Spanish*) and the State's Attorney's Office Against Secret Trade (FCC, *in Spanish*). Through the OPFF's actions it is pursued to weaken the economic and financial capacity of organized criminal networks, thus interrupting the income flow that allows the continuity of their operations. The creation of the FCC is intended to address the challenge of fighting and penalizing the secret practice of trade or industry, as well as the trade of merchandise in non-performance of the legal requirements related to the return and payment of taxes that are levied upon their production or trade.

In view of the presence of criminal networks that trade illegally with a great variety of products, a strategy has been privileged that undertakes to identify and attack illegal trade at the different stages of the marketing chain; that is, from the financier, to the suppliers, up to the end distributors.

The specific strategies for the design of examination plans and on-site presence activities have been dependent on the type of product, and have been formulated considering illegal trade in a wide sense; that is: the trade of legal goods sold illegally and the trade of illegal goods sold illegally. Actions constitute fiscal intelligence tasks that require very strict analytical work.

Examination Plans: books, phonograms, videogames, movies, software, perfumes, medicines, tobacco, textiles, etc. In addition, specific plans have been outlined to examine the illegal trade of products in specific sale-peak periods (months prior to the beginning of the school year, Christmas, etc.).

Examination Presence: a significant percentage of the examination presence tasks are targeted at illegal trade, favoring the development of controls of sectors difficult to be examined, such as Persian fairs, free fairs and road posts.

Judicial Field: considering the way illegal trade operates, the judicial tasks of the SII have been forcedly targeted at gaining overwhelming means of evidence, so as to provide Service's lawyers with solid arguments to present before the judicial authorities, regarding the existence of this kind of facts that are rendered fiscal crimes, and which are to serious detriment of fiscal interests.

4. FOLLOW-UP AND CONTROL MECHANISMS

The follow-up and control of tax obligations compliance requires instruments that contribute with objective measures. This will allow detecting faults in our processes, generating actions and measuring their impact. The generation of objective measures allows setting up goals and measuring their performance. As long as work teams are well informed about the processes conducted under their responsibility, they will adjust their efforts in order to optimize the results in terms of effectiveness, efficiency and quality.

The Measurement of Tax Evasion shows us in macroeconomic terms the difference between what tax revenues should be in theory and what has been actually collected; the Plan Against Tax Evasion (PLCE) set up clear objectives of greater revenues for the SII, thus becoming a goal in itself to be achieved by the entire Institution; the Control of Tax Evolution delivers a detailed vision of declared amounts, and stands as a tool that allows to generate diagnoses and take concrete actions regarding certain groups of taxpayers; Management Indicators show how each one of the examination processes is developed, while back-feeding to the operating units so that the latter may perform adjustments to meet their objectives; and finally, the Performance Agreement sets annual goals for some indicators, which must be achieved by the work teams that are made up of all the Organization's officers, facilitating concentration of efforts in an organized fashion.

Herein, we will approach each of the measurement methods before stated.

4.1. Tax Evasion Measurement

There are diverse methodologies for measuring tax evasion; among them, is the Theoretical Potential Estimation by using National Accounts, National Surveys, an Audit Sampling Method, Reconciliation of Tax Information and Opinion Surveys.

The SII has an annual estimation of the VAT's evasion rate, as per the information in the National Accounts. This measurement is based upon the proximity between the VAT's theoretical base and the variable of "private consumption" measured by the Central Bank. On this variable, all adjustments and discounts are applied, in accord with the transactions that are taxable with and exempted from the VAT, pursuant to the legislation.

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The following chart shows the VAT's evasion rate estimation for the period 1996-2004. This series has been built drawing on the annual data from consumption, investment and product aggregates, published March 2005 by the Central Bank.

VAT's Evasion Estimation – MIP 1996 Base

(Figures in thousand million \$ per year)									
	1996	1997	1998	1999	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹
Theoretical Collection	2.995	3.248	3.561	3.580	3.905	4.224	4.436	4.824	5.344
Effective Collection	2.329	2.620	2.711	2.793	3.087	3.405	3.700	4.039	4.587
Amount of Evasion	667	628	850	787	819	819	736	785	757
Rate of Evasion	22,3%	19,3%	23,9%	22,0%	21,0%	19,4%	16,6%	16,3%	14,2%

Source SII's Research Sub-Directorate, as per the information of the Central Bank.

Notes: 1. Provisional figure.

From this estimation, a significant decrease in VAT non-performance can be noted in 2000, when it reached 21%, until 2004, when the indicator stands at 14%. In any case, it must be borne in mind that the series estimation is provisional. The figures are subject to adjustments as national accounts for the last years are reviewed by the issuing institute.

Another way to assess tax compliance is the so-called VAT's Productivity Index, which is calculated as a fraction between the VAT effective collection, expressed as a percentage of a macroeconomic variable correlated with its theoretical base, and the tax's legal rate in force. As for the VAT, the GDP and the Household Final Consumption are used as macroeconomic references. However, this last variable, Final Consumption, seems to be the immediate reference, given that the VAT is a tax levied on the end consumer.

VAT Productivity Index – MIP 1996 Base

(Figures in thousand million \$ per year)

	1996	1997	1998	1999	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹
Effective Collection	2,329	2,620	2,711	2,793	3,087	3,405	3,700	4,039	4,587
% GDP	7.5%	7.5%	7.4%	7.5%	7.6%	7.8%	8.0%	8.0%	8.0%
% Final Consumption	11.8%	11.9%	11.4%	11.7%	11.9%	12.3%	12.7%	12.9%	13.9%
Legal Rate	18%	18%	18%	18%	18%	18%	18%	18.25% ²	19%
Productivity - GDP									
Index Value	0.414	0.419	0.412	0.418	0.423	0.434	0.444	0.436	0.421
Base Value 100=1996	100.00	101.22	99.53	100.90	102.05	104.91	107.12	105.35	101.64
Productivity Final Consumer:									
Index Value	0.654	0.662	0.635	0.649	0.662	0.681	0.703	0.709	0.729
Base Value 100=1996	100.00	101.31	97.17	99.19	101.27	104.17	107.52	108.39	111.56

Source: SII's Research Deputy Directorate, as per the information of the Central Bank.

Notes:

- 1) Provisional figure. Considers estimations of national accounts for the GDP and Final Consumption, available as of March 2005.
- 2) Weighted average rates per effective months in 2003 (18% rate for 9 months and 19% for the remaining 3 months).

If Final Consumption is taken as reference, which should be the most adjusted variable as per the aggregate taxable base of tax, productivity shows a systematic rise as from 1999, where the rate is near the 100% base rate, up to 112% in 2004.

The Productivity Index is consistent with the evasion rate, recording similar behavior over the years. As from 2000, a considerable decrease is observed in VAT non-performance, which is the year before the enforcement of the Act of Fight against Evasion, when said rate amounted to 21%, until 2004, when it stood at 14%.

4.2. Plan Against Tax Evasion

On June 19 of 2001, a set of over 50 measures was established intended to curb tax evasion, targeted at the period 2001-2005. The measures involved amendments to diverse judicial texts such as the Tax Code, the Income Tax Act, the Tax on Sales and Services Act, the Customs Ordinance and the organic laws of the Internal Tax Service, Customs and the Public Treasury of the Republic.

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As for the SII, their provisions assume a gradual increase in personal and physical means deriving from its examination process, new powers for accessing information, application of more effective control systems and the enhancement of some legal loopholes in the VAT and Income taxes, which weakened the system in the fight against evasion.

The Act provided explicit commitments of greater collection of yields related to internal tax evasion, ruling out customs tariffs from the target collection calculation. This net amount accounts for the yield target of the internal tax administration.

Commitment to the Plan Against Tax Evasion Major Internal Tax Revenues Committed

Year	Millions of \$	Millions of US\$
2001	84,328	144
2002	235,126	401
2003	324,040	553
2004	391,040	667

Real Pesos as of March 2005; Dollars consider exchange rate
586.48 \$/US\$.

The tax revenue target has been fulfilled on an annual basis, with 2005's compliance pending assessment.

4.3. Tax Evolution Control

Its objective is to generate statistics on accrued taxes, with the highest possible level of de-aggregation, so that it may be used as a tool to detect deviations from tax returns as per the expectations, and at the same time, to be used in the preparation of more effective examination programs. In addition, it allows forecasting in detail the amount of a certain tax item and the number of taxpayers subject thereto.

The information characteristics are:

- Information on accrued taxes, with the maximum level of detail.
- Information on the last 3 years and the current year.
- Includes 100% of tax forms (of SII, Customs and Treasury).
- Evolution of declared amounts and frequency of affiants.
- Generation of tax affiants' rolls.
- Monthly update.

Below, is an example of submitted information on the evolution of a tax item.

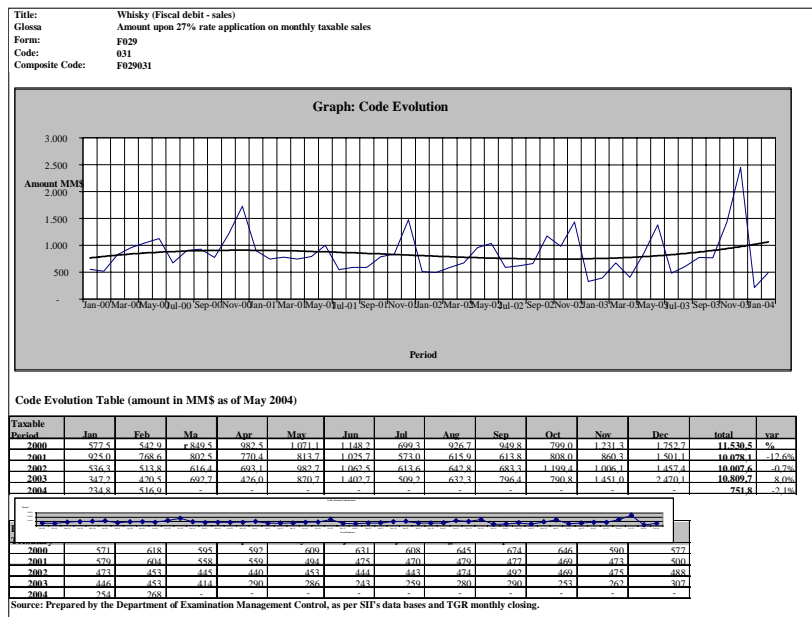


Figure 4: Example of Tax Evolution

4.4. Management Indicators by Examination Process

Operating units, that is, where examination processes are coordinated and carried out, are the Regional Directorates. They are responsible for supervising and following up tax aspects of taxpayers under their jurisdiction. There are 16 Regional Directorates throughout the country, and there is the Directorate of Large Taxpayers, responsible for largest-rated taxpayers.

The task of the Management Control Department is to provide information that facilitates knowing, evaluating and performing management of developed process; therefore, every month each Regional Directorate is sent a report that includes the follow up of the following objectives and processes, for the analysis of their officers:

- Report on Tax Revenues.
- Income Operation.
- Tax Return and Monthly Payment processes.
- Selective Examination.
- VAT Refunds.

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- Life Cycle (authorization of documents, start or conclusion of activities, modifications in business activities, etc.).
- Issuance and payment of drafts.
- Waiver Policies.
- Others.

The main characteristics of the "Management Indicators" Report are the following:

- monthly sending to each unit,
- cumulative indicators for the current year and the previous year,
- information broken down by unit and national consolidation,
- monthly publication on the Intranet.

Below is an example of a summary table of indicators, which is sent monthly to every examination unit (Regional Directorates).

REVENUES (MILLION OF NOMINAL PESOS)		REGIONA			NACIONA			
		JAN-MAY 2005	JAN-MAY 2004	% VA	JAN-MAY 2005	JAN-MAY 2004	% VA	
F22 Tax Returns		13.841	8.338	86.0%	81.292	77.092	93.8%	
F22 Tax Returns		66.304	58.350	88.0%	3.053.316	2.651.002	86.8%	
F50 Tax Returns		212	232	91.4%	666.296	638.143	99.1%	
F24 Tax Returns		428	352	82.2%	139.643	122.988	88.0%	
Refunds		-11.806	-7.179	60.8%	-982.290	-810.355	82.5%	
Paid Drafts		2.065	1.185	57.4%	138.349	66.586	48.1%	
TOTA		43.361	44.600	-2.8%	3.096.607	2.591.371	19.5%	
OTHER (MILLION OF PESOS)		REGIONA			NACIONA			
		JAN-MAY 2005	JAN-MAY 2004	% VA	JAN-MAY 2005	JAN-MAY 2004	% VA	
Adjustments (Monetary Correction and Base Change F29)					34.110	122.768	27.8%	
Adjustments Previous F22 AT and F24 as of April					39.608	5.938	665.7%	
Imports VAT					1.200.526	1.010.589	83.4%	
Otros (Tributos importados, vehiculos, patentes mineras, etc)					27.566	28.821	-4.4%	
Multas Intereses					43.830	48.832	-10.2%	
Giros y F22 Pagados en USD (No incluye Codeico)					143.563	13.318	978.0%	
Otros sin Clasificar					80.329	36.829	215.7%	
Ingresos Netos PLCE	Subtotal				4.746.148	3.858.466	23.0%	
Impuestos al Comercio Exterior					135.793	133.248	1.0%	
Ingresos Tributarios					4.881.941	3.991.714	22.3%	
Nro Id	NOMBRE INDICADOR	UM	REGIONA			NACIONA		
			AT 2005	AT 2004	% VA	AT 2005	AT 2004	% VA
3.1	Monto Pagar	Mil	5.738	4.800	81.9%	752.677	472.436	61.6%
3.1	Monto Devolucion Solicitada	Mil	-27.129	-24.897	91.8%	-896.249	-1.118.535	-90.0%
3.2	Monto Devolucion Retenida	Mil	8.241	11.961	68.9%	381.589	616.414	61.9%
3.3	Porcentaje Declaraciones Impugnadas	%	11.7%	19.5%	59.5%	11.7%	17.7%	66.1%
3.4	Tasa Declaraciones por Internet	%	96.9%	80.9%	83.5%	96.3%	82.0%	82.3%
Nro Id	NOMBRE INDICADOR	UM	REGIONA			NACIONA		
			ENE-MAY 2005	ENE-MAY 2004	% VA	ENE-MAY 2005	ENE-MAY 2004	% VA
2.5	Tasa de Declaraciones por Internet	%	44.5%	31.0%	143.5%	41.6%	33.0%	126.1%
2.7	Obligados a Declarar por Internet	%	2.4%	2.3%	104.3%	4.7%	4.9%	96.1%
2.8	Tasa de Declaraciones por Internet (Monto)	%	48.5%	46.0%	105.4%	77.6%	77.7%	100.0%
4.1	Rendimiento Total	Mil	2.799	3.256	-14.0%	120.802	58.647	206.0%
4.7	Nº Casos Selectivos Terminados	Nº	40	164	-75.6%	1.944	2.134	-8.9%
4.8	Nº Casos Equivalentes Terminados	Nº	31	S/D		622	S/D	
4.9	Nº Casos Emergentes Terminados	Nº	185	211	-12.3%	2.723	2.455	11.1%
4.14	Casos Pendientes Regional	Nº	419	551	-24.0%	7.219	7.543	-4.3%
4.15	Casos Asignados por Fiscalizador	Nº	1448	35.0	-0.4%	428	27.0	-15.7%
5.10	Cobertura	%	13.5%	10.9%	23.7%	14.9%	10.2%	45.6%
5.17	Horas Totales de Presencia	Nº	12.774	10.358	23.3%	166.387	129.772	28.2%
5.1	Acciones Comercio Establecido	Nº	5.164	4.121	25.3%	92.951	64.294	44.6%
DEVOLUCION IVA EXPORTADOR								
7.1	Monto Autorizado a Devolver	Mil	9.614	6.767	42.1%	963.197	795.029	21.2%
7.6	Nº de Devoluciones Aprobadas	Nº	290	262	10.7%	5.959	5.883	1.3%
7.2	% Monto Autorizado a Devolver Sin Revisión 48 horas	%	81.8%	S/D		88.3%	S/D	
DEVOLUCION CAMBIO DE SUJETO								
8.1	Monto Autorizado a Devolver	Mil	317	352	-10.0%	9.916	6.267	58.2%
8.3	Nº de Devoluciones Aprobadas	Nº	275	230	19.6%	5.299	3.892	37.7%
8.6	% de Solicitudes Concluidas Fuera de Plazo	%	10.1%	10.2%	-1.4%	24.7%	13.1%	88.2%
DEVOLUCIONES 27 BIS								
8.15	Monto Autorizado a Devolver	Mil	1.955	60	3124.8%	9.178	9.089	1.3%
8.16	Nº de Devoluciones Aprobadas	Nº	9	S/D		124	109	14%
8.17	% de Solicitudes Concluidas Fuera de Plazo	%	22.2%	25.0%	-11.1%	13.4%	17.6%	-23.9%
GIROS								
9.1	Monto Pagado	Mil	2.065	1.185	74.3%	138.349	66.586	107.8%
9.2	Monto Emitido (Incluye Descargos)	Mil	5.832	5.178	12.6%	201.978	187.354	7.8%
9.3	Relación de Pago (Pago / Emitido)	%	35.4%	22.9%	54.8%	68.5%	35.5%	92.7%
9.7	Giros Pagados en el Mes Emitidos los Últimos 2 Meses (S)	%	18.6%	0.0%	0.0%	10.9%	0.0%	0.0%
9.8	Giros Pagados en el Mes Emitidos los Últimos 2 Meses (Nº)	%	10.2%	0.0%	0.0%	8.1%	0.0%	0.0%
6.1	Total Nº de acciones de RIAC en Unidad	Nº	7.348	S/D	S/D	87.494	S/D	S/D
6.5	Total Nº de acciones de Timbrado	Nº	S/D	S/D	S/D	S/D	S/D	S/D
6.9	% contribuyentes con BHE	%	28.0%	S/D	S/D	19.1%	S/D	S/D
6.10	Tasa de Inicio de Actividad Internet 2da Categ.	%	99.2%	S/D	S/D	97.7%	S/D	S/D
6.11	Indicador de 30 min.	%	99.8%	S/D	S/D	99.8%	S/D	S/D

Figure 5: Example of Management Indicators

TOPIC 1.2 (Chile)

This information corresponds only to the summary of indicators that are monthly generated for each Regional Directorate, and in which the main examination processes are approached. In addition, highly-detailed information on each process is delivered, which allows detecting points likely to be improved.

As an example, we present some more detailed indicators for the process of Income Tax Annual Return for a Regional Directorate.

	A	B	C	G	
	INDICATOR'S NAME	CALCULATION METHOD	UNITS	AT 2004 Calculation Method	
3.1	Monto Declaraciones Primitivas F22 a Mayo	Declaraciones Primitivas c/Pago-Declaraciones Primitivas c/Devolución Solicitada	Millions	4.800 + -24.897 =	-20,0%
3.2	Tasa Devolución Retenida a Mayo	Monto Devolución Retenida a Mayo Monto Devolución Solicitada a Mayo	Millions Millions	11.961 -24.897 =	-48,0%
3.3	Tasa del N° Impugnados a Mayo	N° Declaraciones Impugnadas N° Declaraciones Totales	N° N°	19.324 99.049 =	19,5%
3.4	Tasa N° Declaraciones Internet a Mayo	N° Declaraciones Primitivas por Internet N° Total Declaraciones Primitivas (Internet+Papel)	N° N°	80.130 80.130 + 18.919 =	80,9%
3.5	Monto Declaraciones Primitivas F22 Fuera de Plazo	Declaraciones Primitivas c/Pago-Declaraciones Primitivas c/Devolución Solicitada	Millions	22 + -186 =	-164
3.6	Tasa Montos Devueltos por Liberación y Rectificatoria	Monto Total Liberaciones+Retención Devuelta por Rectificatoria Monto Devolución Retenida a la Fecha (Mayo+Fplazo)	Millones Millones	-4.221 + -4.324 12.003 =	71,2%
3.7	Flujo Rectificadorías	Flujo Pro Fisco + Flujo Pro Contribuyente	Millones	5.893 + -263 =	5,631
3.8	Rendimiento por Impugnado	Rendimiento Total [A] N° Declaraciones Impugnadas (Mayo+Fplazo)	Millones N°	4.650 19.393 =	0,24
3.9	Flujo Promedio del Monto Declarado por Declarante	Monto Declaraciones Primitivas F22 + Flujo Rectificadorías N° Declaraciones Primitivas	Millones N°	-20.261 + 5.631 100.374 =	-0,1
3.10	Flujo Promedio de Citaciones Realizadas en Unidad	Monto Rectificadorías + Monto Denegado Resolución + Monto de Liquidación Total Citados	Millones N°	0 6 =	0,0
3.11	Tasa N° Liberaciones en Unidad	N° de Liberación en Unidad N° Total Liberaciones (Unidad+Electrónica)	N° N°	2.205 7.677 =	28,7%
3.12	Tasa del N° Rectificadorías por Internet	N° Rectificadorías por Internet N° Rectificadorías Totales (Internet+Intranet)[B]	N° N°	3.708 10.384 =	35,7%
3.13	Promedio de Casos Concluidos por Fiscalizador	N°Liberaciones Unidad + N° Concurrencias Unidad + Rectificadorías en Unidad N° Fiscalizadores Asignados a la Operación Renta	N° N°	9.023 7 =	1,245
3.14	Tasa Trámites No Resueltos	Trámites Pendientes + Trámites Vencidos N° Impugnados que van a la Unidad	N° N°	61 + 571 9.023 =	7,0%

Figure 6: Example of Income Indicator specifications

All this information is available on the Intranet, and can be consulted by officers responsible for managing work teams.

4.5. Performance Agreement

During the second semester of 2003, management indicators and goals were defined in relation to said indicators, with the aim of assessing the performance of the different units in the examination processes. For such purpose, 18 work teams were selected, based upon a criterion that essentially reflects the Institution's organizational and territorial structure.

The specific indicators and their goals reflect the areas that the Tax Administration wishes to emphasize, taking careful consideration of the permanent operating and regulatory performance of Service in all its areas.

Every year, new indicators and goals are incorporated. For 2005, the Performance Agreement contemplates the following topics:

- **Increase in Tax Revenues:** real percentage increases in tax revenues that are declared in the F29 form (VAT Return and Payment and monthly Taxes form) of 2005, in comparison with 2004.
- **Increase in Examination Presence:** percentage increase in actions performed in 2005, as compared with those performed in 2004.
- **Increase in F29 Tax Returns via the Internet:** percentage increase in the F29 tax return rate submitted via the Internet in 2005, as compared with 2004.
- **Increase in Tax Payment via the Internet:** percentage increase in the number of tax payment actions via the Internet, in comparison with 2004.
- **Increase in Owners' Data Alteration through the Internet:** percentage increase in the rate of actions performed through the Internet.
- **Electronic Coverage of Fee Tickets (BHE, in Spanish):** percentage of different taxpayers that issued BHE in 2005, in comparison with total taxpayers that issued tickets in 2004.
- **Activity Start-up Coverage through the Internet (IAI, in Spanish):** rate of Second Activity Start-ups. Category of those performed through the Internet.
- **Electronic Invoice Training:** number of lectures on Electronic Invoice to be performed during the year.

- **Performance of the Annual Plan of Selective Examination:** Performance of the number of examinations scheduled for 2005 Annual Plan.
- **Compliance with 30-Minute Assistance:** Percentage of cases addressed before 30-minute waiting in processes of document stamping and Life Cycle (activity start-ups, modifications in business activities or terms).

The information is published monthly on the Intranet, so that all teams are fully aware of the compliance with proposed goals. The final performance evaluation is conducted upon the end of each year.

5. IMPACT OF THE INFORMATION TECHNOLOGY INDUSTRY

The rational use of Information and Communication Technologies (TIC, in Spanish) stand as a strategic option for the SII. This decision has entailed creating solutions for tax compliance, with the result of the Internet (virtual office) becoming the main communication channel with taxpayers.

In addition, the so-called “e-Government” has allowed the SII to rethink and redesign the way of performing tax administration, targeted at reinforcing the pillars of institutional management:

1. Facilitation of Tax Compliance (Maximization of Tax Compliance).
2. Strengthening of Examination Control (Minimizing Tax Evasion and Fraud).
3. Contribution to Economic Development (Fostering Productivity Increase, State Modernization and Reduction of Unfair Competition).

In addition, the e-Government approach is intended to:

- i. Provide high-quality services for taxpayers, which may dramatically simplify diligences (not marginal improvements), as an incentive to increase voluntary tax compliance.
- ii. Minimize tax compliance costs and taxpayers’ visits to the SII’s offices and tax collection institutions (banks and financial institutions).
- iii. Enhance SII’s examination capacity, by means of the use and management of taxpayers’ information, ideally provided “directly” by them (compliance awareness).
- iv. Foster the use of TIC and induce improvements in the business cycle of taxpayers, for voluntary compliance.

TOPIC 1.2 (Chile)

- v. Cause show-effect in other public bodies and the private sector, regarding the adoption of TIC, while providing outstanding e-Government services.

The above said does not imply that all other communication channels with taxpayers (telephone, direct contact, written contact) are to be neglected; however, the use of e-Government solutions by taxpayers are favored and promoted.

5.1. Use of Technologies

The SII is committed to providing outstanding e-Government solutions in all stages of taxpayers' tax life cycle, maximizing automation of processes and connectivity between the different economic agents and the Service.

This situation is reflected in all the solutions developed for taxpayers' life cycle, which comprises the economic agent's activity from beginning to end.

The above said is illustrated in the following scheme:

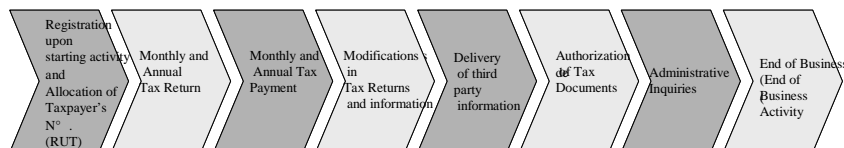


Figure 7: Taxpayer's Life Cycle

The Registration of the Activity Start-up and the RUT allocation (Single Tax Role), that is, the formalization of economic agents, is the first necessary step to facilitate control over taxable persons. The use of information during this life cycle stage, *Activity Start-up through the Internet*, has been operating since the second semester of 2004, for taxpayers submitting second-category income tax returns. This year contemplates the implementation of the *Activity Start-up through the Internet* for all other taxpayers (first category).

As mentioned before, facilitating monthly and annual tax returns and payment is one of the central axes of SII's strategy. As a consequence of a series of information technology solutions implemented to meet the requirements of taxpayers in this environment, *Monthly (29 Form) and*

Annual (22 Form) Tax Returns and Payment through the Internet, the Service has been able to strengthen its examination role through the use of information voluntarily submitted by taxable persons. Therefore, by means of simple information crosscheck it is possible to perform mass examination plans, or to have the necessary background that allows feeding complex analytical processes (fiscal intelligence).

In this same sense, applications have also been developed that allow taxpayers themselves to update and correct the information that they submit to the SII, regarding themselves or other agents with whom they relate in their own business activities. Especially, tax returns (DDJJ) contain information submitted by different economic agents, the objective of which is to validate the information presented in tax returns. This set of information, added to a series of fiscal intelligence methods and information coming from other internal and external sources, allows to generate taxpayers' lists who are subject to be examined under a pre-defined fraud hypothesis.

Documentary authorization (tickets, delivery notes, invoices, books, among others) is a control step that detects taxpayers who have incurred any kind of non-performance, because in order to be granted authorization, they are required to correct detections. Technology at this stage of life cycle has been of great use, since it has made for high-impact solutions in favor of both taxpayers (reduction of cost and time) and the SII, in that it has allowed strengthening control. As an example, by the end of 2003, it was implemented an Electronic Fee Ticket and Electronic Invoice.

Taxpayers have increasingly accepted the different technological solutions implemented as support for the different business processes. The following chart shows the coverage of some applications:

Process	Year 2003	Year 2004	Year 2005*
Income tax returns through the Internet (F22)	68.8%	83.0%	96.3%**
VAT returns through the Internet (F29)	32.5%	40.2%	41.9%
Activity Start-up through the Internet	-	83.7%	97.6%
Fee Ticket	-	14.6%	16.2%

* Data as of April 2005.

** 2005 Income Operation Data.

As far as Administrative Consultations and Business Activity Term diligences are concerned, the development of applications on the Internet is under way.

5.2. Electronic Invoice

This system's objective is to give the electronic invoice tax legal validity as a means to support commercial operations among taxpayers, and to replace paper invoices. This allows gaining improvements in taxpayers' business processes and substantially diminishing costs of invoicing processes, while facilitating the development of e-commerce in our country, and contributing to giving impulse to e-Government in other public offices.

In September 2003, the Internal Tax Service declared open the process for popularizing electronic invoicing for all taxpayers. Since then, taxpayers have been able to apply for and be granted the certification as issuers and receivers of electronic invoices through the Internet, as well as to request from the SII the resolution that entitles them to operate with electronic tax documents.

Figure 8 shows an outline of how the electronic invoice operates for economic agents, in which the concept of automation of process and connectivity among agents is clearly stated, in view that the SII is the validating entity of the whole operation.

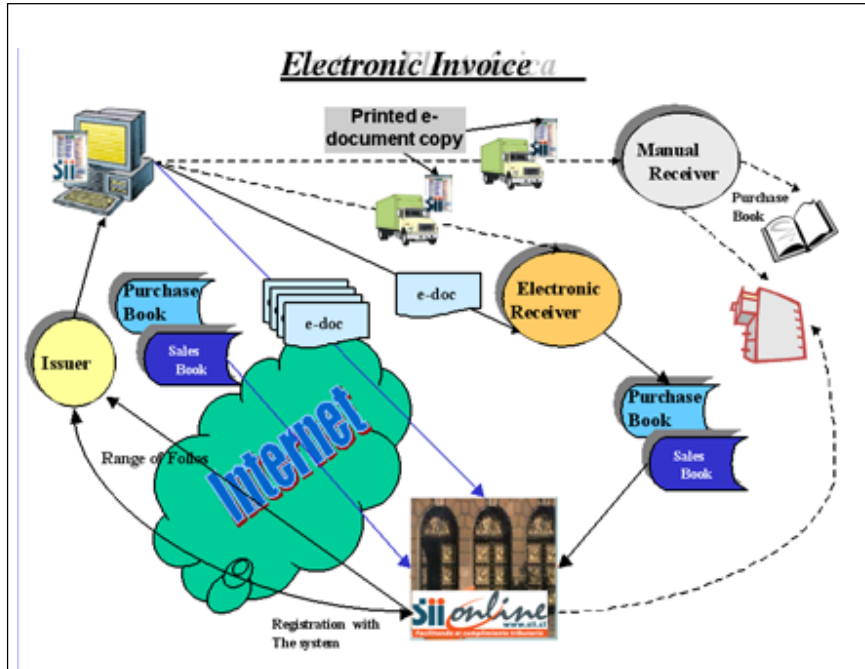
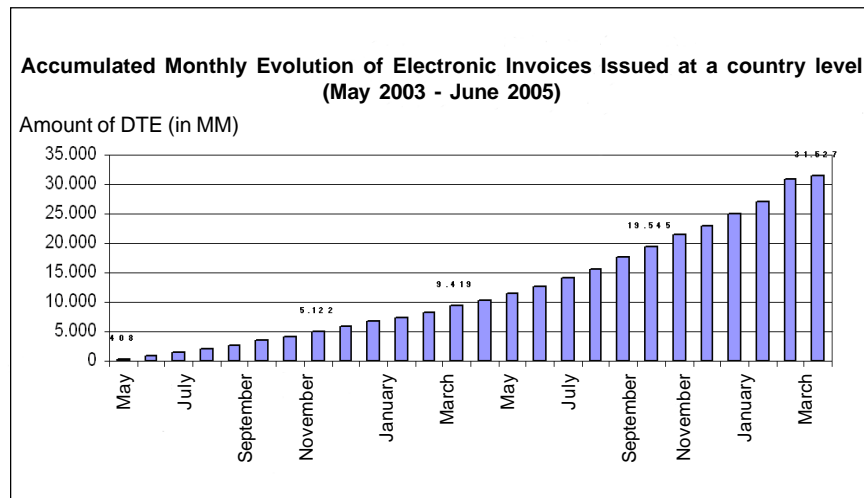


Figure 8: Outline of Electronic Invoice

An authorized issuing agent receiving a range of valid folios for electronic invoices may operate with both electronic and manual receivers. Electronic receivers and issuers are bound to inform, electronically, all their transactions to the SII; for all other purposes, this is the only way in which these transactions can be recognized. As for manual receivers, their relationship with e-issuers is materialized through a printed copy of the e-document.

Statistically, we may indicate that the issuance of electronic invoices during 2004 amounted to nearly 20 million documents nationwide, with a monthly issuance average of 1 million documents, which accounts for nearly 5% of the country's monthly total turnover. As of June 2005, issued invoices amount to over 30,000.

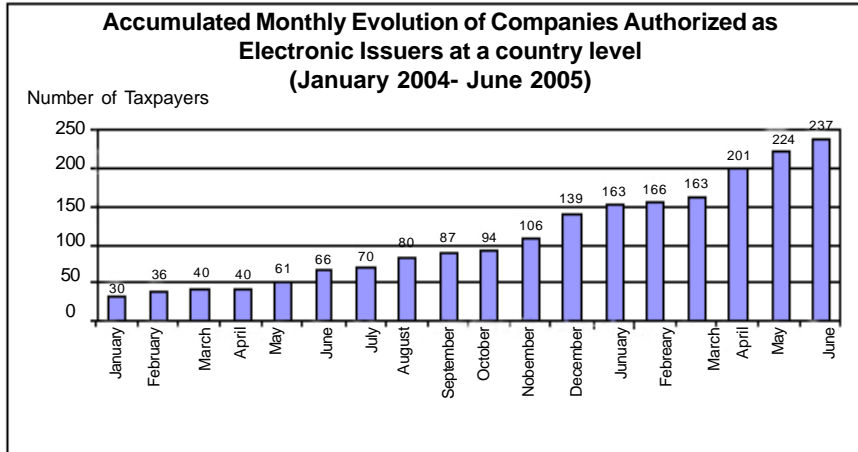


Graph N° 1

Thus, the figure of over 30 million electronic invoices issued as of June 2005 corresponds to 224 companies authorized as electronic issuers, and which were in operations as of June 2005.

To the 224 companies other 13 are added, which were authorized as electronic issuers in June, totalizing 237 companies authorized as issuers of Electronic Invoices (See graph N° 2).

TOPIC 1.2 (Chile)

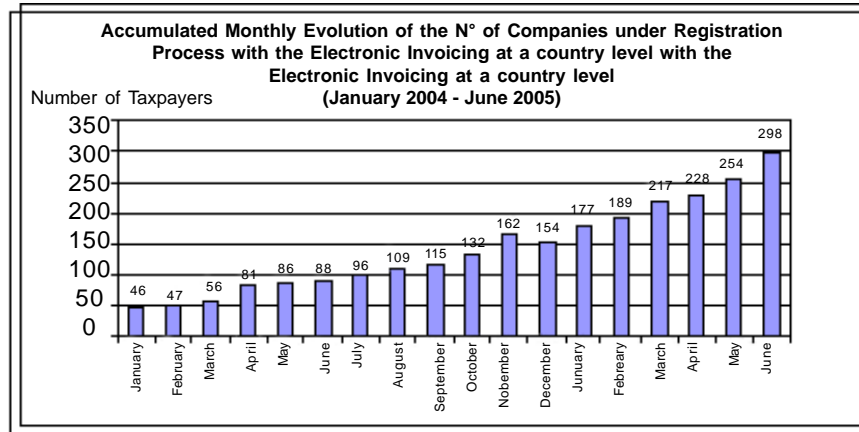


Graph N° 2

Of the pioneer economic sectors in electronic invoice issuance, the Services sector accounts for 25% of companies authorized as electronic issuers; Wholesale Trade accounts for 18%, and the Communications sector represents 8%; which goes to show the interest of large sectors of the economy in the increases in productivity and competitiveness generated by electronic invoicing.

As of December 2004, 331 Public Bodies were able to receive electronic invoices, and have been doing so since July 2004 through the portal *ChileCompra*, which also allows all State's offices to become receivers of Electronic Tax Documents, particularly of invoices.

The success and the impact of this revolutionary invoicing system are reflected in the exponential growth of companies monthly registering for it through the SII's Virtual Office: 62 companies registered in 2003, in comparison with 298 in June 2005 (See graph N° 3).



Graph N° 3

6. COMMENTS AND CONCLUSIONS

The formulation of a Strategic Plan has allowed to coordinate all the Institution's officers for the performance of objectives, and to define a Management Model that specified the functions to be performed by the organization's different units. As a result, the obligations and responsibilities have been delimited, thus facilitating evaluation and control of different processes.

The Plan to Fight Tax Evasion set up revenue targets for the Institution, for the period 2000-2005. With the aim of fulfilling these goals, it has been necessary to move ahead with the continuous improvement of each one of the examination processes, so as to facilitate voluntary compliance of taxpayers' obligations, as well as cut down the chances of tax evasion.

With a view to facilitating follow-up and analysis of taxpayers, the latter have been segmented by business items, thus achieving specialization and detection of evasion types typical of each type of business. Selective examinations are conducted of these groups of taxpayers, which from 2003 are defined in the Examination Annual Plan, thus performing an annual schedule of examinations to be conducted in the country.

Another relevant segmentation is that performed as per taxpayers' size. In this way, the Directorate of Large Taxpayers is responsible for the follow-up of nearly 1,300 biggest-size companies in the country, by means

TOPIC 1.2 (Chile)

of a specialized methodology. This follow-up method is being extended to all other operating units of the country, by means of a pilot plan.

The implemented measurement mechanisms are allowing to perform a follow-up of each process and to take measures that make it possible to strengthen them in terms of tax collection effectiveness, resource use efficiency and taxpayers' assistance quality. The implementation of these mechanisms has not been without difficulty; however, information users have benefited there it upon improving their analysis and management abilities. An example is the Performance Agreement, implemented as from 2003, which sets up performance goals for certain processes, which are strategically selected with the aim of emphasizing aspects to be improved. These goals are evaluated annually in relation to each work team, which involve 100% of the Institution's officers.

It is worth mentioning that the established goals have been met in the evaluation periods by all the work teams, as has the tax revenue global goal established in the Plan of Fight Against Evasion. Tax evasion indicators also show a positive trend towards evasion reduction.

The rational use of Information and Communication Technologies stands as a strategic option for the SII, which has entailed creating solutions for tax compliance, and which have turned the Internet (virtual office) the main communication channel with taxpayers. This option has allowed to rethink and redesign the way of performing tax administration, targeted at reinforcing the pillars of institutional management: Facilitating Tax Compliance; Strengthening Examination Control; and Contributing to the Country's Economic Development. Some interesting cases worth mentioning on this regard are the Notice of Activity Start-up via the Internet, the Issuance of Fee Tickets via the Internet and the Income Tax Return Proposal through this same means. In addition, the incorporation of the Electronic Invoice is also an example of a high-impact technological project that supports examination by reinforcing all SII's management pillars.

Case Study

TOPIC 1.2

**ADAPTING FISCAL CONTROL TO THE BEHAVIOR
OF TAXPAYERS**

Vincent Mazauric

Chief of Application Services
General Directorate of Taxes
France

(Note of the Publisher) We incorporate to this publication the reproduction of the Power Point presented by the General Directorate of Taxes of France.

Context Elements

Structure of Mandatory Discounts

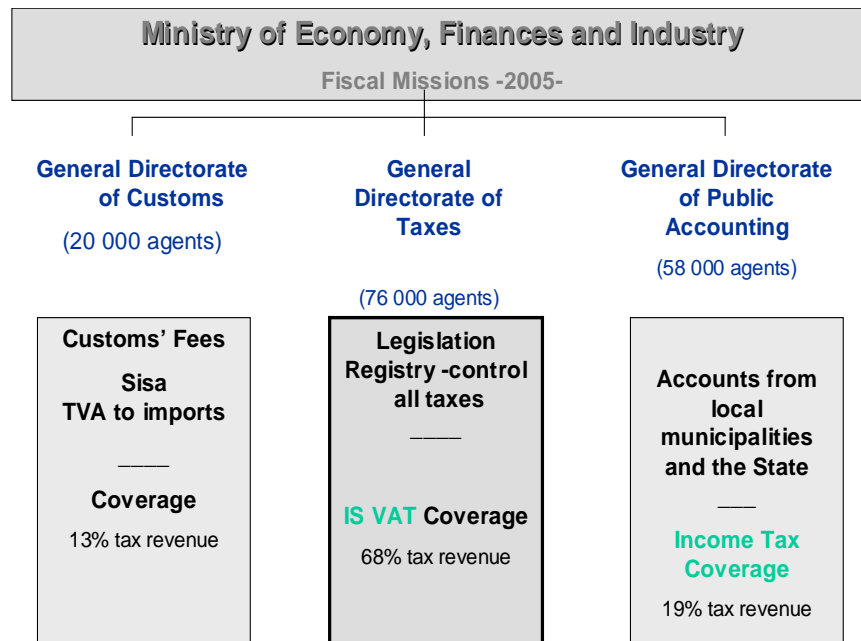
Main Taxes

In billions of •

Corporate Taxes 3.5 million from corporations	Corporate taxes	41
	Local taxes, professional rate	20
Excise taxes, discounted at company level	Value Added Tax (European Legislation)	119
	Tax on Oil Products	25
Taxes on Individuals 34 million taxpayers	Income Taxes	47
	Local tax on housing	29

Social Security Payments 281

Social Security Payments and CSG	335
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A tax administration in full mutation:

- 1 – Competency divided into three administrations:
 - segmentation, loss of information and efficacy,
 - complex and not very legible to the user.
- 2 – An ample modernization process of the missions which is directed towards:
 - a unified tax administration, example: progressive grouping of fiscal missions of the companies to the DGI: registry, control and coverage,
 - user centered : individuals / bodies corporate.
- 3 – This process does not pertain to Customs.

Characteristics of the French Fiscal System:

- A **return filing system** based on fiscal civic conscience, that is the spontaneous filing of returns and the payment of the tax owed:
 - user services,
 - offers legal certainty,
 - prevention.

Characteristics of the French Fiscal System:

- High civic conscience requires efficient control follow-up (52,000 on site verifications annually)
 - fair-play for “mistakes ”
 - strict and severe for people that commit fraud. (950 fiscal fraud lawsuits annually).

1. The quest to adapt the return filing system to the economic reality:

- A. An information gathering system user centered.
- B. Risk analysis tools to detect irregularities.
- C. Cooperation between services and between States.
- D. Economic supervision.
- E. Procedures to obtain information.

2. Response adapted to each type of fraud (examples)

- A. VAT company agreements.
- B. IT fraud.
- C. Common delinquency.
- D. International registry displacements.
- E. Partial responses for current questions.

1. The quest to adapt the return filing system to the economic reality:

A. An information processing system user centered:

1. Many return filing data: salaries...
2. Joins the databases on the group of the European flows of goods (VIES)
 - validity of European registries of companies subject to the payment of the VAT,
 - sum of exchanges performed by companies with their commercial associates located in other states.
3. Access to private databases.

B. Risk analysis tools to detect irregularities:

Tools that allow performing the following :

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> - a request, - configuration, - risk analysis - event | | <ul style="list-style-type: none"> - incoherences - behavior ruptures - fiscal risks |
|--|--|---|

⇒ with the purpose of programming fiscal control

1. The quest to adapt the return filing system to the economic reality:

C. Cooperation between services and between States
Internally:

Cooperation with the police, justice, social security,
work inspection, customs ...

- information exchange,
- jointly performed with the media,
- control coordination plans,
- common education actions.

Internationally:

Information exchange in the framework of international
administrative assistance

Working groups to fight fraud

i.e.: Forum on damaging fiscal practices
(OECD),

i.e.: the G7's fight against tax havens.

Working groups to exchange best practices and
standards

i.e.: CIAT, CREDAF, OECD, IOTA ...

1. The quest to adapt the return filing system to the economic reality:

D. Economic Supervision

- Economic supervision and information gathering:
 - assure general economic supervision and by sector,
 - gather the information,
 - widely spread the information in the services.
- Mission entrusted to a national service,
with the concern of efficacy.

1. The quest to adapt the return filing system to the economic reality:

E. Procedures to find information

Information Request: taxpayer interrogation.

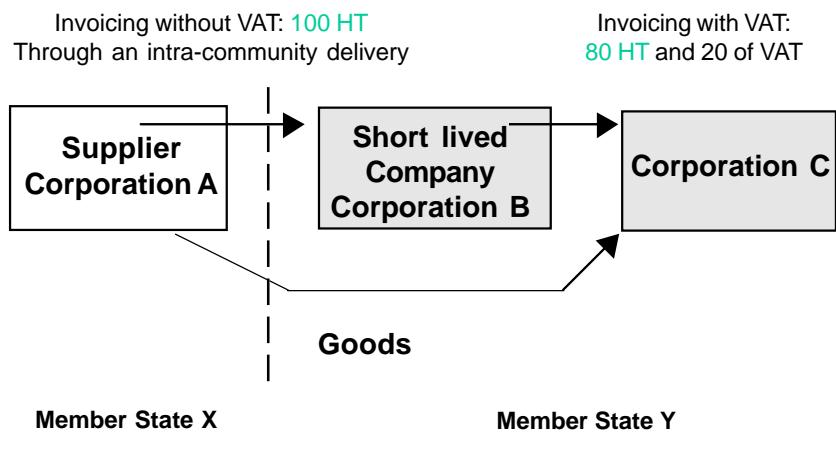
The Right to Communication : the right to access information withheld by third parties.

The right to investigate : invoicing control with the power to perform audits.

The right to visit and seize: inquiries under the authority of a Judge.

2 . Response adapted to every type of fraud found

A. VAT company agreements: International VAT fraud



2 . Response adapted to every type of fraud found

- A. VAT company agreements: a response adapted to detection, cooperation, intervention, sanction
1. Early detection
 - surveillance of sensitive sectors: company observation (price, flow, behavior rupture) through the surveillance of the flow of goods (VIES), databanks and information gathering.
 - follow-up to company agreement networks
 2. Cooperation
 - anti-company agreements cells to exchange information
 3. A quick and coordinated intervention
 - coordinated controls in the European Union
 4. Fiscal and penal sanctions throughout the chain
 5. Network information

2 . Response adapted to every type of fraud found

- A. VAT company agreements: a permanent challenge
Regarding the reactions of the states, fraud evolves, i.e.:

Fraud 2 countries	—————>	Fraud 10 countries
Life duration <= 18 months	—————>	Life duration 3 to 4 months
Scarecrow	—————>	False identity
French Bank Account	—————>	Foreign bank account (outside the EU)

⇒ a plan to fight fraud to return to continuous thinking.

2 . Response adapted to every type of fraud found

B. "IT" Fraud

IT progress and the evolution of information technologies:
new fraud risks

- 1) electronic commerce : how do we treat the taxable base?
- 2) Accounting or management programs: how can we make sure that they are not permissive?
- 3) Electronic invoices : how can we assure their reliability?

2 . Response adapted to every type of fraud found

B. "IT" Fraud

Response at different levels

- 1) tax agents specialized in IT
 - to detect fraud (DNEF, BVCI)
 - to provide a concrete response to more complex frauds.
- 2) Internet surveillance.
- 3) Inter-services cooperation: joint actions with police and customs to oversee fraud and fight it.
- 4) The exchange and determination of rules internally: electronic invoicing, accounting programs,...

2 . Response adapted to every type of fraud found

C. Common law delinquency

- 1) The changing nature of delinquency
 - delinquency of issues that are high in criminality: pimping, trafficking, gaming...
 - delinquency of proximity: underground work...
- 2) Cooperation with Customs, Police and Justice
 - The BNEE : joint service between the Judicial Police and the DGI.
 - The GIR : DGI agents with interservice regional poles to fight the underground economy.

2. Response adapted to every type of fraud found

D. International spill-over movements

- 1) The internationalization of exchanges and economic and fiscal competence favor:
 - abusive transfer of benefits,
 - resort to tax havens and bank secrecy,
 - fictitious movement of the income and assets of individuals.

2. Response adapted to every type of fraud found

D. International displacement of registries

2) Tools adapted and international cooperation:

- a – anti-abuse tools,
- b – making verifiers professionals,
- c – international cooperation:

Tax Agreements.
Information Exchanges between States.
Coordinated Controls.

- d – the promotion of a non-damaging international approach,

2. Response adapted to every type of fraud found

E. Partial answers to current questions

1) Identity fraud, consists in creating a company as from a false identity

- it develops quickly with fiscal purposes,
- a context of company creation without restrictions,
- currently it is not much sanctioned.

2) The fragmentation of the activity, consists in distributing the activity among multiple micro-businesses

- a device that in itself is not censurable,
- reasons that are not exclusively fiscal,
- non-adapted individual fiscal control.

TOPIC 1.2 (France)

The adaptation to the taxpayers' behavior then
undergoes
 observation,
 investigation,
 cooperation,
 and maybe, suddenly, prevention.

TOPIC 2

PREPARATION OF THE ORGANIZATION AND CAPACITY FOR RESPONDING TO CHANGE

Lecture

TOPIC 2

**PREPARATION OF THE ORGANIZATION AND CAPACITY
FOR RESPONDING TO CHANGE**

Horacio Castagnola

General Director

General Directorate of Taxation

Federal Administration of Public Revenue - AFIP

(Argentina)

CONTENTS: 1. Executive Summary.- 2. Introduction.- 3. The Concept of Change.- 3.1. The different forms of change.- 3.2. The cost of not changing.- 4. Change in the Tax Administration.- 4.1. Peculiarities of change processes in tax administrations.- 4.2. The desired model of tax administration.- 5. Preparation of the Tax Administration for Change.- 5.1. The strategy.- 5.2. The implementation of the strategy. The importance of culture.- 5.3. The alliances.- 6. The New Strategic Role of Information Technology.- 6.1. The evolution of systems area in the tax administration.- 6.2. The recent Argentine experience.- 7. Final Thoughts.

1. EXECUTIVE SUMMARY

Human organizations and tax administration in particular, must fulfill the requirements of having the ability to adapt to their surroundings, providing adequate answers to the challenges of the context and appropriate signal systems for evaluation the fulfillment of goals.

TOPIC 2 (Argentina)

The different forms of change and learning begin with some degree of dissatisfaction that is based on data and information that frustrate expectations. That dissatisfaction is the initial driver of change.

However, frustration is not enough. To promote the decision of changing, an additional condition must exist: one must overcome the fear of recognizing that something is wrong and that one may lose effectiveness, self-esteem, and even essential values of individuals and of the organization.

In general complex human organizations build mechanisms of identification of the most sensitive variables of the context and seek to undertake continuing and evolving processes of adaptation.

Change is not a difficult process, and frequently people seek - either consciously or unconsciously - mechanisms to conceal the need for change.

Modifying a situation that works by itself implies contributing energy and additional costs that act as clear resistance factors. Psychological structures, the cost of learning, or simple comfort act as strong deterrent factors.

It is imperative that the top management explain toward the inside of the organization the social costs of inefficiency, creating work environments that favor participation and positive attitude toward change and identifying the agents that may promote and collaborate in the processes that are undertaken.

As opposed to other areas of the State, tax administrations and their members are in permanent and constant contact with the reality in which they operate: they are the link connecting the private sector economic reality with the State.

It is appropriate to have a desired or ideal tax administration model. Without that previous conceptual scheme, the strategy and processes adjustment process becomes more difficult to fulfill the ultimate goals of the organization.

In order to better prepare the organization to face efficiently the needs for change, it becomes necessary to work conscientiously on at least three basic pillars: formulation of an adequate strategy, its controlled and effective implementation, and the generation of intelligent alliances.

Organizations with the size, resources, and demands of the tax administrations are unthinkable without adequate planning and coordination mechanisms. The challenge ahead is to create the conditions in order to get agents who everyday conduct processes effectively participate. Those processes involve identifying the restrictions that limit their effectiveness and creating proposals for improvement.

The members of our institutions must receive the signal that change is inexorable, not because of management's arbitrary decisions but because said change was sufficiently evaluated and considered as the best available solution for overcoming the frustration detected.

The growing dynamism and complexity of the context obligates one to reflect on the need to generate mechanisms that complement those traditionally used, allowing the administrations to enrich knowledge and strengthen their capacities to influence and modify the means in which they operate.

Having the combination of the difference perceptions take shape into the formulation of a global vision and in the explicit pro-change goals is, perhaps, one of the most important tasks for those leading our organizations.

Management disregard for the existence of some possible characteristics that the world system will likely have may limit the adequate design that may be given to the strategic visions. This would result in losing options to further opportunities or to neutralize the possible adverse effects and impacts that may be anticipated.

In terms of the administration operations to further the mechanisms of change, we must look at management through its main processes, identifying the frustrations - understood as change drivers - and the cultural and operating restrictions - viewed as change resistance factors, This will enable us to propose alternative ways to implement the desired changes (improvement processes).

The challenge is managing noncompliance in a systematic manner, so as to ensure that the required general actions are taken until the omitted obligation is paid in full or the corresponding penalty is applied.

This criterion of evident conceptual simplicity turns out to be, in operating terms, one of the most important challenges for the administrations.

TOPIC 2 (Argentina)

There are natural difficulties to understand, on the part of those who are responsible for only a part of management, the benefits of going from a system where operating areas had greater degrees of freedom on a limited number of taxpayers to having to manage based on centrally-generated information in order to manage effectively all noncompliance instances identified. Hence, it is important to communicate adequately and at all levels which are the objectives and benefits of the change decided.

An alternative vision to the customary definition of verification activities results from integrating formal basic control actions (notifications for failure to file tax returns and make payment, proceedings and fines levied in complete cycle operations) and the conduct of massive data checks at the office and home verification of taxpayers. Strong emphasis should be placed on the previous investigation and the high level of commitment of operating units in terms of the impact generated.

The dynamics of change has resulted in some of the systems implemented for meeting the service demands of taxpayers not having a response capacity in accordance with these expectations. Consequently, service deteriorates and it becomes necessary to utilize exceptional procedures to deal with the unmet demand. Therefore, these things need to be taken into account to be able to sustain and definitely consolidate the proposed changes.

Regarding services, the “virtual counter” is added to the concept of traditional counter in an effort to overcome provisional and geographical shortfalls in service and to also provide services that could not be delivered through a different means (e.g.: query of registration records or valid invoices). At present systems that allow the operation of specific processes with a criterion of greater fairness and scope are operating satisfactorily.

The accomplishments made in recent years in our organization cannot be conceived without the active participation of their members and without sufficient financial and material resources.

The nature and intensity of the changes, as well as the speed with which they take place, constitute the main challenges for the current administration of human rights. Implementing a strategy is nothing more than the conversion of said strategy in a coherent set of initiatives and performance measures, putting them effectively in place and obtaining information for feedback. Communicating said strategy throughout the organization poses a strong challenge to those who are responsible for implementing the proposed strategy.

Agreements or alliances constitute one of the most effective mechanisms to implement the desired changes, because by allowing the conciliation of interests and ideals shared between organizations, one may define the technical areas for cooperation based on which innovation and growth processes should be promoted. Thus, each organization complements the current strengths of the other and the talents of both may be used, but combined in a unique way.

The situations and surroundings are not the same, so it is indispensable that organizations adapt themselves to the particular characteristics of each moment.

The application of information technology in the fulfillment of the mission of tax administrations does not present itself currently as an alternative, but is a condition necessary for the success of management.

At present, the challenge is having those responsible for the different functions of the tax administrations (operations, collection, verification, recovery, resources management, etc.) and those who develop the information systems work in a joint fashion in order to have a more valuable contribution toward improving the different management processes.

2. INTRODUCTION

The final objective of this paper is to analyze the peculiarities of the change processes in tax administrations based on concepts usually employed in the theory of organization.

The aim is to provide a conceptual framework that serves as reference in the transformation processes administrations face, based on experiences observed in our administration.

Change is an obvious piece of information of reality and, therefore, it must be viewed as a basic part of our everyday setting.

Tax administrations, because of the complexity and dynamism of their activities, must not only have appropriate instruments to manage change but the attitudes and culture of the organization must view change as something natural and intrinsic to its own institutional nature.

The passing of “closed” organizations-based view to one of “open entities” must be accompanied by a set of processes and instruments

that allow for the definition of environments prone to change, as the efficient way of facing the challenges of the coming decades.

Change in organizations is not an easy process and those who attempt to implement it must face strong resistance factors.

It is necessary to reflect on the peculiarities of the complex change processes in order to better address those issues, thereby facilitating the task of those determined to undertake changes.

3. THE CONCEPT OF CHANGE

Human organizations are open systems that have an additional requirement: fulfill specific objectives within reason.

In every open system the requirement for survival lies with its ability to adapt, providing adequate answers to the challenges of the context.

Then, adapting to the surroundings and having signal systems for assessing compliance with goals are critical elements for an adequate functioning.

The requirements mentioned are directly related to the change process.

It is clear: one must change to adapt oneself and to be able to fulfill one's goals.

The first thing to be addressed, when speaking of change, is identifying what has to change and why it must change.

In organizations, change deals with differences in the way in which organizations operate, how they related to their surroundings, who leads their processes, the different architectures they adopt, and how resources are assigned.

Now: What do we mean when we talk about change?

What do we know about change?

In the 1950s Kurt Lewin defined some elements that continue to be useful for analyzing the idea of change, at the level of persons and of human groups.

In his model change is understood as a process with three clearly defined stages: an initial moment of “un-learning” or “un-freezing,” which implies overcoming inertia and dismantling preexisting structures. Then comes the process itself - generally carried out in scenes of confusion - and finally a “re-learning,” while an effort is made to restructure thoughts, conducts, and attitudes.

The term “unfreezing” indicates that the stability of human conduct is based on unstable equilibrium among the forces of change and resistance.

In order for change to take place, this field of forces must be disrupted by adding new concepts or elements which, in turn, generate opposite reactions acting as a resistance that seeks to maintain equilibrium.

The initial equilibrium would be easily modified if resistance forces operating the system could be removed. This is not easy because there are individual psychological defenses, or group norms deeply rooted in the culture of the community, which prevent it.

How do change processes begin?

The different modalities of change and learning begin with some degree of dissatisfaction, which is based on data or information that foil expectations. That dissatisfaction is the initial driver of change.

Be it the need to adapt to new conditions in the context or be it the genuinely creative organizational learning that Peter Senge mentions, it is clear that the need for change comes from the failure to meet one’s expectations and, therefore, change acts as a modifying source of the unstable existing equilibrium.

However, frustration is not enough. To promote the decision to change, an additional condition must exist: one must overcome the fear of recognizing before oneself, or before others, that something is wrong and that effectiveness, self-esteem or even important values for our individuals or organization may be lost.

Often times, persons or organizations prefer to admit that they are adapting insufficiently, or that they barely fulfilling their expectations or objectives, to facing the anxiety of change or to beginning a process of learning.

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The essence of the management of change includes identifying adequately the signs that indicate that a good adaptation is not being accomplished, or that expectations will not be met and, at the same time, properly controlling the anguish produced by that resistance to be able to sustain the calling and decision to face the complex process of changing.

There are different places from which one can detect the need for change. Persons may identify that their expectations and the reality they perceive or feel are not in sync.

Sometimes the reflection or facing an undesired scenario helps one understand those inconsistencies.

In the case of organizations that process of recognizing the conflict between goals and reality takes place in a number of ways and if, in fact, top management bears a great deal of responsibility in identifying that, we understand that its most important role is creating the conditions so that all members of the organization are aware that it is a shared responsibility.

3.1. The Different Forms of Change

Now, after the need for change has been admitted one wonders: What kind of change are we talking about?

Changes may be emerging or intentional.

In the former case they come from the natural evolution of the existing systems.

Intentional changes are driven by someone with the purpose of changing a situation or a given trend.

In organizations with relatively stable and defined goals, the occurrence of significant changes may also come about as a result of the emergence of sudden or relevant modifications in the context that, once identified, obligate organizations to undertake a process of quick adaptation resulting into fulfilling their goals or into defining new objectives.

Profound changes or breaks require new forms of thinking and acting. There is a break from the past. A crisis presents itself. Control is lost.

Incremental changes are related to the internal improvements in a context that does not present significant changes (For example: the models of continued improvement). In those changes the organization perceives that it has control over the situation.

In general complex human organizations gradually build mechanisms of identification of the variables that are most sensitive to the context and seek to carry out continuing and evolving processes of adaptation.

There are authors who indicate that violent or disruptive change is generally driven by failure in establishing organizations capable of continuing adaptation.

Therefore, as part of processes it is important to identify which are the most appropriate mechanisms to identify the relevant modifications in the context - which in a very simplified manner we can call strategic thinking -, the manner in which those changes in the surroundings impact upon the mission and vision of the organization, how internal processes are redefined, and how changes are communicated within the organization.

Change can then be viewed as a danger or as an opportunity. Associated with this issue, we can also wonder whether:

- Change is manageable? Is it predictable?
- Can it be induced?
- Can it be changed? Is it easy to change?

From the answer resulting from the aforementioned questions one may come up with the issue of the so-called “agents of change.”

In every organization we find different kinds of players that we can clearly differentiate in terms of the attitude they adopt toward change. Although any typology is simplified, we can identify:

Agents of change in the strict sense of the term. They are responsible for implementing the change process. They are the defenders who take charge of leading the change. The energy and determination to change lies within them.

We also find individuals who understand the change that is proposed to them and are ready to collaborate. They are doers whose attitude is basically positive. On the other hand, there are people who act as obstacles to change: There are two types of blockers. "Positive" blockers view the problems that may pose obstacles to change and the negative consequences of the measures that are proposed. Their experience in the organization makes them see the risks and they frequently realize about those risks.

There are also those who we can identify as negative blockers. They are those who attempt to prevent change at any rate. Their energy is placed on not changing.

Finally there are the skeptical. They doubt that change is possible ("several attempts have already been made") but leave room for operating. With skill and reason, they can be persuaded.

3.2 The Cost of Not Changing

Change is a difficult process, and often times both individuals and organizations seek — either consciously or unconsciously — mechanisms to conceal the need for change.

Changing a situation that works by inertia implies contributing energy and additional costs, which act as clear resistance factors. Psychological structures, learning costs or plain comfort act as strong deterrents.

If one does not have an awareness of the cost of not changing anything, it is very difficult for change to occur. Dissatisfaction must be clearly identified and, if possible, quantified.

It is clear that without dissatisfaction there is no change.

In the public sector often times the costs of not changing are identified as distant in time or capable of being offset by other measures that compensate inefficiency, transferring it to the rest of society.

Top management should waste no time to undertake the mission of explaining within the organization the social costs of inefficiency in tax administrations. This will create a work environment that will favor participation and positive attitudes toward change, while identifying the agents who may promote and collaborate in the processes that will be undertaken.

4. CHANGE IN THE TAX ADMINISTRATION

When we relate the aforementioned considerations with the problems the tax administration faces, we can identify some specific aspects that are worth considering.

The changes taking place in economic activity, the new forms of trade or of financial activity, and other similar factors have a direct impact on the administrations, both in the control and service functions. The economic or fiscal policy decisions often times imply modifying the norms that impact upon the context and upon the organization itself. Learning new forms of noncompliance also furthers reforms that imply changes in the way of management. Technological advancements, which have resulted in significant progress in our administration, are also sources of change and of transformation inside the organizations.

4.1. Peculiarities of Change Processes in Tax Administrations.

Tax administrations are a specific case of complex human organizations with their mission explicitly defined by law and especially sensitive to the changes that are produced in the economic and social settings.

On one hand, they face the need to continuously adapt themselves to the context that will enable them to adequately fulfill their goals.

On the other hand they must act as “agents of change” trying to impact upon the context, in order to improve social behaviors under their purview.

The permanent feedback with the surroundings and the need to exert influence over it so as to change behaviors becomes operational through different flows of information.

As opposed from other areas of the State, the tax administration and its members are in permanent and constant contact with the reality in which they operate: the tax administration is the connecting link between the economic reality of the private sector - from the smallest taxpayer to the largest business group - and the State.

In the event of profit-seeking companies, the loss of market or contribution margin may be the right signals to indicate that something

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must be restructured. Competitive markets have nearly automatic mechanisms that are useful for identifying maladjustments in price, quality or innovation.

In noncommercial organizations often times it is more difficult to detect in time the existence of problems. In the specific case of tax administrations the definition of realistic quantitative goals and objectives, in defined periods of time, is more complex. It is easy to know that there is fiscal noncompliance and even to somehow quantify it; it is much more complex to know how long and based on which variable the improvement may come about.

In public organizations, with more slack reward and penalty mechanisms than in the private world, the generation of the dissatisfaction to further change becomes a permanent challenge for those who must act as promoters of change.

Despite the aforementioned limitations, it is our obligation to define specific success criteria and to establish warning systems that may indicate to us the evolution and/or materialization of our objectives.

Conceptually noting through indicators or quantitative measurements the different types of noncompliance helps one redefine the objectives and propose the required changes in the different activities under the responsibility of the administration.

That endogenous detection takes place through those who manage the phases of the operation — those who operate and interact with taxpayers — and is also activated by analysis and assessments at the highest management level. In both cases the very organization identifies the gap and proposes the changes.

The process of change is also generated by outside situations that obligate one to confront new control activities or measures.

4.2. The Desired Model of Tax Administration

In order to assess the impact of the foregoing considerations in our organizations, it is appropriate to have a desired or ideal tax administration model. Without that conceptual scheme the adjustment of strategies and processes to fulfill the ultimate objectives of the organization becomes more difficult.

Obviously, this model will not be the same for all tax administrations, because it must be conceived and imagined by each organization in particular so it can have its own and distinctive vision. This vision will result from convincing the organization's leaders and will be formulated based on the potential analysis of the resources and the different factors of the environment in which the organization operates.

In our opinion, the ultimate objective of the tax administration consists of generating the necessary mechanisms for inducing permanent improvements in the fiscal conduct of society.

To that end the administration must take with flexibility the changes that are generated in the context in which it operates. This includes understanding the political decisions, the macroeconomic dynamics, the forms of trade, the technological changes, the characteristics of markets, and any other factor that may have an influence on the economic and social reality.

In order to have success possibilities, both top management and those who do the actual work must have a few priority goals clearly defined.

Having too many objectives generates more confusion than commitment.

On the other hand, the lack of priorities is the easiest road toward disorder.

Having these goals clearly defined will allow the administration to think in long term proposals and in profound cultural and structural changes. It is desirable that these changes imply greater operating autonomy, reduction of circumstantial influences of the context, and an adequate system of incentives and penalties.

The ultimate goal must be to turn tax administrations into organizations with top-notch management processes, which distinguish them significantly from public sector organizations and which promote a sustained change toward institutional quality.

5. PREPARATION OF THE TAX ADMINISTRATION FOR CHANGE

In order to get the organization better prepared to face efficiently the needs for change, it is necessary to work conscientiously on at least three basic pillars: the formulation of an adequate strategy, its controlled

and effective implementation, and, finally, the generation of intelligent alliances.

In this regard, it is also necessary to have a profound and thorough knowledge of the peculiarities of all organization management processes, so that the change is based on its strengths and allow for improvement opportunities.

5.1. The Strategy

Organizations with the size, resources, and demands that tax administrations have are unthinkable without adequate planning and coordination mechanisms.

In spite of the fact that adaptability and flexibility are viewed as attributes not only desirable but practically indispensable for a good management, often times the implementation of systematic procedures, which tend to improve or solve the dissatisfaction detected by the organization management levels, is perceived by the agents subject to those taskings as a relative loss in terms of discretion ability.

The challenge is creating the conditions so that the agents who manage the process on a daily basis participate in identifying the restriction that limits the effectiveness of the processes and in the generation of improvement proposals.

If the alternatives that emerge involve real losses in the degrees of discretion ability of those very agents – as happens often times – alternatives that in later stages imply growth in the work status and in the ability of adding greater values to the tasks they carry out must be proposed. Examples of those would be the generation of better alternatives that protect – in terms of value – the optimum functioning of the administration.

In summary, one must seek that the person identifying the dissatisfaction not be exclusively a manager but also those who run the systems or processes. This is the best way to make everyone understand that change is necessary and to get everyone's willingness to participate in this effort.

The challenges are, then, identifying in a timely fashion the changes that are necessary, communicate those changes adequately, bring them into the different levels of the organization, and achieving that they be viewed as positive and improvement elements.

An important aspect is the opportunity in which change is promoted and the timing in which it is communicated to the organization.

If an important change is communicated (procedures, systems, structure) way before the time for its effective implementation, the organization enters into a period of instability that makes the management of transition difficult. On the other hand, if communication is delayed for too long (“the unfreezing to produce the change”), changes come into the organization without it being ready to receive them, which in general increases tension and makes the process difficult.

The organization must receive the signal that change is inexorable not by an arbitrary act of management, but by having been sufficiently evaluated and considered as the best available solution for overcoming the detected dissatisfaction.

5.1.1. The administration and its surroundings

The growing dynamism and complexity of the context obligates one to reflect on the need for creating complementary mechanisms to those traditionally employed, which allows for enriching the knowledge ability of the administrations for strengthening their capacity to influence on and modify the surroundings in which they operate.

It is more evident each time that the traditional vision of managing “toward the inside of the administration” concrete and specific products, such as changes in the control of filing and payments, the improvement of recovery or the control of truthfulness in taxpayers tax returns, is not enough for achieving the final objectives of the administration.

It becomes necessary to identify the social impact of the activities carried out and how they translate in objective behavioral changes by those responsible. As a result, we must be alert to world trends in the use of technology for tax purposes, which allow for “opening” the administration toward the community and, in turn, improving the sensitivity of the organization toward changes in the context.

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The administration – through its different management levels and roles – is in a position, and is also obligated, to examine the context and its own operations.

Integrating the combination of the different perceptions into the formulation of the global vision and in the explicit change goals is, perhaps, one of the most important tasks for those leading our organizations.

The most careful examination is the one that the top management of the organization must make to visualize the general context in which it will operate in the foreseeable future.

The prospective vision of those who analyze likely future scenarios indicates that the foreseeable future in which our organizations will operate covers a number of factors that must be accounted for and taken into consideration in the formulation of the strategic plans.

Without attempting to present a restrictive list, we believe that there are objective data that mark the context for the coming years.

The most defined element seems to be the continuation of the globalization process with high possibilities of an intensification of the influence of important Asian countries such as China and India.

Another element is the consolidation of a highly inter-related international financial system, with has extremely sophisticated instruments for managing liquidity and the flow of capitals.

It is predictable that the world's economy will maintain constant growth.

The influence that the existence of global companies will have on the dissemination of more sophisticated production and marketing schemes also seems evident, with a strong influence of new technologies.

The aging of the population in more developed countries and a broad social base of youths in less developed countries will, no doubt, have an impact not only on taxation but also on social security administration schemes. It has also been indicated nongovernmental organizations will bear a growing influence.

The risk of political instability and global terrorism marks the agenda of border controls.

On one hand, in many of our societies a marked deterioration in income distribution - with everything that it implies - is observed. On the other hand, a strong social dissociation resulting from populations in a same territory without access to the simplest forms of literacy or culture and flexible elites is observed. The latter are highly trained and have growing access to information, transforming them in new forms of power.

Ignoring the existence of some of the likely characteristics the world system will probably have on the part of management may limit the adequate design of the strategic visions of our administrations. Therefore, they may lose the opportunity to promote opportunities or offset the possible adverse effects and impacts that may come about.

This look "toward the outside" seems to be more necessary each day and we must be attentive to be able to determine which way our societies are advancing and the impacts that change will have on our organizations.

5.1.2. The processes

As has been indicated so many times, tax administrations basically manage information systems.

If in fact that tax administration is, by itself, a highly complex organization with several responsibilities, there is consensus that its basic responsibilities are:

- The collection and recovery.
- The verification.
- Taxpayer service.

These different processes, which initially appear as different processes, in reality are part of a single unit where the behavior of taxpayers determines the actions that mobilize the tax administration.

The core value of this scheme is being able to assign a risk value to each taxpayer, built on the analysis of the available information. To that end, adequate compliance with their formal obligations by taxpayers is required, which is an indispensable requirement to be able to evaluate the correctness of taxpayer's self-declared returns against with the independent information available to the State Treasury.

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In order to fully enforce those obligations of tax assessment and payment, the administration must facilitate inasmuch as possible the conditions that allow for the effective compliance with tax obligations.

Once formal obligations have been complied with - whether voluntarily or at the urging of the administration - the next phase comes, which is the checking of self-declared amounts against the independent information available to the administration.

The gap emerging from that comparison determines the taxpayer risk and must define the actions of the State Treasury, both in terms of control and service.

That vision allows for assigning priorities in the activities to be undertaken.

Knowledge of the environment, and the subsequent questions by the administration, are basically fed by the information that flows through the aforementioned processes.

To address the management in that context, one must apply a systemic focus to find alternatives that will allow for a definition of clearly outlined work plans and concrete goals with monitoring of their implementation.

In terms of the operations of the administration to promote the change mechanisms, we must look at the work through its main processes, identifying the dissatisfaction — understood as a change driver - and the cultural and operating restrictions - viewed as resistance factors. This will permit us to propose possible alternatives for implementing the desired transformations (improvement processes).

5.1.2.1 Collection and recovery

The basic activity of tax control consists of ensuring the completeness of the implementation of primary controls over the obligations to file tax returns and make payments, so as to maximize getting information and getting funds on which tax collection is based.

Regardless of the platform they operate on, whether centralized or not, said processes demand certain expected characteristics: the entire process of failing to file taxes and make payments must be identified and managed up to the last control phase, managing priorities in a rational manner.

In the last few years, the implementation of proposals in the Argentine administration began by concentrating on the work of the so-called “agencies,” that is, the offices where the collection process is managed – control of tax return filings as well as payments and formalities. There, the service needs required by taxpayers are met and attended to, and the cross-checks of information are made, so-called “office” checks. Specifically, these units manage 90% of the interactions between the State Treasury and taxpayers.

The challenge, then, is to manage acts of noncompliance in a systemic manner in order to ensure that all required actions are taken until the omitted obligation is paid in full or the corresponding penalty is applied. The same holds true for providing the different services required by taxpayers.

We call this concept complete cycle management.

This criterion, of an evident conceptual simplicity, is – in operating terms – one of the most important challenges for the administrations.

The lack of completeness of the claim process implies strong internal work, as well as a large allocation of human and material resources without achieving effective or concrete results. Therefore, it is a bad sign toward taxpayers and toward society.

In our experience highly decentralized and nonintegrated control systems have shown limitations in terms of the standardization of the responses given to different situations by distinct offices.

The proliferation of fragmented systems has produced faults in the internal control and problems to obtain a rapid flow of information. The high degrees of operating freedom of the different units made them work in an independent fashion, with serious difficulties of coordination. This caused not only asymmetrical responses depending upon the jurisdiction in which transactions are carried out, but also inconsistencies in the information, excess number of databases, and difficulty in gaining access to information.

It also made the adaptation to new technologies such as the WEB-based electronic exchange of information with external and internal agents difficult.

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Given the aforementioned reasons, the collection area had to resort to technologies for managing the current accounts of taxpayers in a more centralized and integrated model, which will tend to eliminate the above-mentioned problems.

In order to make these concepts functional, work is being done in two basic areas: the comprehensive and integrated centralized control system and the tax registry.

With these tools the aim is to consolidate information from the different organizational areas – standard piece of information – in order to improve the efficiency of the processes and share among themselves and with external agents reliable, accurate, and timely information. This will enable the administration to have a unified vision of all processes. In this regard, it is important to highlight that the principle of standardized information comes as a natural result of conceiving that each tax obligation is unique and that consequently it must be managed as such.

The integrity of the registration of vouchers, both external and internal, is the key to responding to the needs of internal control. Ensuring that all these documents are accounted for and that there are no omissions, additions, or modifications requires an instrument that captures each of them in their original form and consequently generates the corresponding accounting record. If in fact said record does not guarantee the absolute elimination of the risk of fraud, at least it reduces such risk substantially.

Every external voucher that enters the organization and is not recorded at that time in a definitive manner is a potential risk element to engage in an act of fraud; the same thing holds true with an internal voucher.

The ideal thing was for AFIP itself to tailor the systems to its needs, and that was the decision made.

The evolution of the collection control system in Argentina had different phases. In the not too distant past – last 15 years – the strategy centered on selective control over reduced groups of taxpayers who accounted for the biggest percentage of collections, with a decentralized management and with greater degrees of freedom given to the definition of operating area.

In a second stage, emphasis was placed on expanding noncompliance-related work to all taxpayers in a more centralized scheme, with less discretion ability in the control management. In order to do that, the frequency of control activities is selected uniformly in terms of the available operating capacity by the different offices. In order to accomplish the objective of effecting a change of behavior in taxpayers, they must be certain that at a reasonably timely moment, depending upon the group they belong to, the administration will carry out all the necessary actions up to the last phase of the control process.

The centralization of the Regional 2000 control system, as a step toward the implementation of the "Tax Accounts System," has allowed significant progress in controlling all groups of taxpayers.

The transformation in our collection systems has implied defining an intermediate phase between the former decentralized systems (Two Thousand and Regional Two Thousand) and the comprehensive centralized control system.

The most important factors that must be dealt with, especially in the implementation of these types of processes, are:

- The high impact that the errors of design and process have on the entire control network.
- Much more demanding discipline and rigor requirements in the philosophy of management.
- More difficult and slow decision-making process due to the volume of data that is included.
- Increase in the level of dissatisfaction of users of the systems they find difficult to see, immediately, the advantages of the standard management.
- Negative evaluation of the delay and the difficulty in gaining access to data that in the past they had under their direct control and in correcting errors in a systemic and non-manual way.

There are natural difficulties by those who are responsible for only a part of management to understand the benefits of going from a system where operating areas enjoyed greater levels of freedom over a reduced number of taxpayers to having to manage in a systemic way all cases of noncompliance that are identified, using data generated in a centralized fashion. The loss of these degrees of freedom generates the most significant resistance to the process of change that is faced.

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Hence, it is important to communicate adequately and to all levels what are the objectives and benefits of the change decided.

Another severe restriction for operating massive noncompliance management systems are the classical problems of return of correspondence due to erroneous addresses of taxpayers. The error or concealment is used “intentionally” to avoid the state treasury actions, while the volatility of this attribute implies a strong restriction in all actions of control and service.

Regarding this aspect, a different mechanism to address it has been designed, which constitutes a clear example of change in the processes.

Facing the issue of errors in home address from the standpoint of managing individual cases implies an efficient use of resources which, clearly, does not have permanent effects, because after they have been tracked, they once again change their addresses rendering the effort carried out useless. Systemically addressing the problem enables the administration to improve control by generating among taxpayers a genuine interest of maintaining the state treasury correctly informed of their real address.

The strategy is creating operating risks or restrictions for taxpayers who fail to have their home residence information up-to-date. The administration considers that taxpayers should be interested in having their address information up-to-date and correct. The administration believes that having an up-to-date and correct home address must be in the interest of taxpayers and not only in the interest of the administration. Based on the implementation of this concept, if a taxpayer is labeled as unreachable or nonexistent he will be unable to obtain registration documentation, to carry out specific formalities, will be subject to differentiated withholdings, and will be inhibited or restricted in his/her ability to invoice.

In order to ensure the success of this procedure, the measures must be accompanied by a responsible administration that implies a strict application of the aforementioned policies. Every agent who runs a process related to the validation of home address must be aware of the importance of an issue that regularly is not assigned the importance that it has.

The key issue is the break of the link with the taxpayer, both for service and for control purposes. Tax provisions regularly allow the supposed

notification, but this tool must be used in a rational fashion in favor of the administration and not in favor of an act of noncompliance. Its indiscriminate use allows nonfilers to remain in the dark, as they prefer not to be located.

5.1.2.2 Verification

Traditionally the work of verification or fiscal audit is understood as the set of activities geared toward creating a risk in the face of noncompliance.

The customary practice of the administration established that said function would operate as something generally independent from the rest of the processes undertaken in the tax administration.

The verification plans structured around a significant number of checks at the taxpayer's home frequently highlight the number of cases investigated - namely initiated - rather than the quality and impact their conclusion and effective recovery will have on the perception of risk by taxpayers.

The old concept that with *“two or three big cases and some criminal charges it would be enough”* has resulted in observing in some administrations a growing reduction in the effective risk perceived by different taxpayers.

An alternative vision results from integrating the actions of formal primary control (notifications due to nonfiling and nonpayment, summaries and fines levied, in “complete cycle” operations) with the massive checks of data in taxpayer office verifications and taxpayer home verifications, which place emphasis on previous investigations and the high commitment of jurisdictional operating administrations in terms of the impact caused.

The activities listed in the last example have a common attribute, namely, enabling the administration to track down the observed behavior in the taxpayer. This implies the generation of risk profiles integrated in a matrix on which relative behaviors can be assessed. These processes should distinguish between different behaviors and activate the corresponding corrective actions. During the last few years fiscal control in our country concentrated almost exclusively on the so-called Two Thousand System. This instrument fulfilled the proposed objective but its own success included a falsehood: we concentrated on a group of

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important taxpayers forgetting the fact that we must manage and control a much larger group of taxpayers.

Working with the totality of taxpayers implies achieving a broader coverage that translates into a greater social perception concerning the work of the administration.

The foregoing explanation regarding the importance of the change in the collection process does not imply ignoring the weight and basic importance of the work of verification. Hence, it is important to see control as a continuum that covers the variety of available instruments.

The possibilities that have been created by technological changes in the last few years, characterized basically by the wealth of the data available and the capacity to flexibly analyze the information, provide an opportunity to make new proposals on how the verification function is related to or integrated with the remaining activities involving fiscal control and service.

Upon understanding risk as a value attributable to taxpayers, communicating that value implies an incentive to self-correction of their tax conduct, given that those who may represent greater relative risk must move voluntarily toward more advantageous positions. This will prevent the implicit dangers of an erroneous tax assessment.

In other words the model has three phases: i) the state treasury / taxpayer relationship is facilitated for those who pose a low risk; ii) control activities are increased for those whose risk value is high; iii) the administration allocates its resources in a more rational manner.

The idea for this change lies in seeing the intelligent exploitation process of the available information as a whole and consistent process.

A similar focus is used to address the acts of noncompliance with social security obligations.

In this field, transparency and citizens' control to improve compliance through service is prioritized.

The system called “My Contributions” is an Internet application which operates in real time and which enable workers to:

- Control their social security contributions
- Verify the destination of the funds
- Lodge claims
- Gain access to their complete work history - each of the tax return filings and payments since July of 1994.

As of today 920,000 workers have consulted the system.

Through another system called “My Registration” the AFIP implemented a Web-based registration for inclusions, deletions, and modifications of work relationships.

Through this instrument, the system provides evidence of the start of the work relationship; the existing data on the different social security databases can be validated.

Security over the registration of employment is so given, as well as over the relationship established with the employer. Since July 1, 2005, some 280,000 queries have been made.

In the last few years the AFIP made significant progress in the creation of support instruments for the work of verification, based essentially on the use of information for the formulation of hypothesis of evasion prior to conducting field work. Ultimately, field work should be the final stage of an investigative process that is much more profound. In other terms, the verification in this stage consists of obtaining concrete evidence that validates and rules out the hypothesis of the investigator.

For this approach, it becomes necessary to determine with accuracy the makeup of groups to be controlled arranging taxpayers by economic activity, income segment level, contribution capacity, society relationships, economic and financial indicators, and every other grouping that allows for analyzing groups to be controlled in a rational manner. This will enable the administration to formulate verification strategies in accordance with the different economic realities and modalities of tax evasion observed.

An interesting example of the significant impact that a change of vision has in the work of verification can be seen in the analysis of the actions

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undertaken to attack the use of false invoices in computing VAT fiscal credits and their deduction as an expense from the income tax.

This maneuver consists of creating companies whose purpose of to generate false invoices to be used by third parties as a fiscal credit or to be deducted as an expense, allowing a reduction in the taxable base for companies or taxpayers who carry out real economic activities.

To tackle this problem, tax auditors analyzed the truthfulness of the invoices included in the credit for taxpayers.

However, once again, a problem of work focus limited the success of the control activities carried out.

Traditionally, verification officials had goals to fulfill that consisted of quantitative adjustments assessed in the verifications made, which were computed for the cases worked in each jurisdiction.

In order to fulfill the objective set, they proceeded to demand from the non-existing companies the taxes falsely invoiced, but never collected. This behavior in fact perfected the credit estimated by the user of the invoice, because if the treasury complained to the taxpayer by giving certainty to the invoice through an administrative decision, it could not demand the credit from the user arguing it was false.

Usually the administrative decision process had no objections from the taxpayer in question — the issuer of the false invoice — because the focus given by the administration was in the interest of the objective intended by the maneuver: ending up with a debt owed by an insolvent party.

Starting with this prognosis and in agreement with the philosophy of managing a complete cycle, the criterion that goals are met if the taxes demanded are effectively collected, with the ensuing fines, was consolidated and disseminated. This is how the fiction structured for many years begins to vanish.

Oversight management, starting with a conceptual change, modifies the focus, including collection as a criterion for the success of management. This is why in the case of false invoices, collection must be sought from the head of their users.

In agreement with this new focus, preventive controls and mechanisms for these figures were designed:

- The invoice printing authorization systems were improved by establishing restrictions for those taxpayers who show an asset-related inability to generate a fiscal credit that can be estimated in the VAT chain.
- A draft bill whereby legal entities will have an AFIP registration control prior to their authorization to operate was drafted.
- New technological resources were applied to the receipts approved for the use of taxpayers, such as the inclusion of the bar code to ease their storage in digitally supported files and their consultation by the AFIP.
- The ways to document electronic trade operations were regulated through a procedure consisting of the issuance of a prior individual authorization key for those receipts that generate a fiscal credit and a general or batch key, for the others.

Another important experience to analyze the consequences of the installation of new forms of management is the emphasis put on the oversight office by using the available information in the AFIP databases, which in turn give objectivity and transparency to control activities.

This point entails a substantial change to the traditional paradigm, which conducted the oversight in the residence of the taxpayer as a pivotal axis of the oversight process.

Currently the information supplied by independent third parties is probably the most valuable control element the administration has. This is why a rigorous administrative control of this information since it first enters the system until it is used for control purposes has become necessary, and this is why it cannot be considered a marginal activity or an action weaker than those carried out with the ensuing obligations.

For several years, the Argentine tax administration has been implementing audit management units in the areas in charge of the primary control of compliance with obligations. Until not long ago, the system operated based upon decentralized bases at the regional units where inconsistent cases were generated through information exchanges. Such bases were updated three or four times a year, and analysis for the selection of cases that were discretionary in nature was conducted. There were no reliable audit information clues on rejected cases and the successive management phases of the selected cases.

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Starting with AFIP's new technological possibilities, an information tool containing all the phases of the verification process has been developed: preliminary selection of cases, submission of requirements, adjustment estimation, and informational follow-up on the collection systems of the effective entry of the difference detected. The tasks conducted by the personnel of the area are subject to validation and are guided by the tool through a standard work circuit with definition of specific roles and the generation of requirements, also enabling the keeping of a permanent management control that eases the analyses of likely deviations.

The implementation of this new system has had some interesting complications to comment on within the framework of the analysis of the particularities of processes of change in tax administrations. Even though the use of information exchange as a way of selecting cases to be overseen does not constitute a new element in the Argentine tax administration, its use into a tool of these characteristics requires constant adjustments both in the definition of and the solution to the errors verified in the execution so as to develop a growing trust among the users of the system implemented.

Another aspect that should have been considered in this study was demonstrating to the organization that even though the system has restrictions regarding the discretionary possibilities of managing through this means the cases detected locally, for tax administration it is much more valuable, in strategic terms, to show how the intelligent use of the information it manages significantly contributes to generating a true risk perception.

Finally, it is important to stress that the primary objective of the strategy described for the oversight process is to have taxpayers forced to conduct a new estimation of the risk associated to the evasion of their taxes, becoming aware that the one they have historically conducted could be wrong given the improvement in the actions of tax administration.

5.1.2.3 Services

Tax systems, which for most tax administrations constitute an uncontrollable context variable, often are defined by a set of broad taxes. In other words, our universe of parties responsible for our control activities is and must be massive.

As a result, it is in the tax and customs operation units where the heavy burden and most demands for mass control, recovery, and collection actions, as well as everything that has to do the services and attention a modern tax administration must pay to its “clients,” are concentrated. We stress the need to start naturally thinking about taxpayers as clients to whom we are obliged to offer the best possible quality services.

Only starting with a clear distinction between a compliant taxpayer and a non-compliant one will we be able to clearly differentiate the strategies to be applied and the actions derived as a consequence of the compliance or the infringement.

In order to reinforce this service improvement concept, the AFIP has created the Taxpayer Services Deputy Directorate General, thus stressing the need to coordinate the efforts that have been made for a few years — through initiatives such as the Taxpayer Defense Office — in this area of the activities and leaving to this jurisdiction the capacity to generate the synergy necessary for a complaint taxpayer to have permanent interlocutors who oversee the quality of the services the administration offers.

As a complement to the segmentation of attention and service improvement practices geared toward territorial network units, the development and use of Internet as a mass and valid channel of communications have been promoted for all those activities that can be carried out satisfactorily through this means.

It is a matter of adding the traditional counter concept to the “virtual counter” concept in order to exceed the temporary and geographic limitations regarding attention while also offering services that could not be offered through a different means (such as consultations on registration documents or valid invoices). Systems that are enabling us to operate certain processes with further equity and scope are currently operating satisfactorily.

However, this virtual concept could signify the exclusion of certain taxpayer segments, which could be left aside in the use of technology because of economic, technical, or functional limitations. Under this understanding, the administration has tried to establish alternative channels of contact available to the entire universe, taking care of the necessary equity regarding access to both information and transactions.

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We are currently analyzing the possibility of exploiting cellular telephony or of giving web connection alternatives to the segments naturally excluded.

Along with the “virtual counter” concept, there is the need to further promote the use of telephony as a means of contact or an equally valid channel to perform certain aspects of the relations with citizens. It is clear that help in the use of Internet cannot be thought of in permanent terms regarding people’s presence; on the contrary, the broad schedule of the web can be supported by a centralized channel, such as call center.

The organizations that have lowered the presence of people to offer attention have done so by funneling resources to other channels conceived for the masses, such as a call center. This is how better conditions to standardize the attention and response process have been obtained, even though often clients resist as they lose visual contact with or cannot see the officials.

The dynamics of the change has made some system implemented to tend to the demands of taxpayers not have a response capacity compatible with these expectations, ensuing a deterioration of services and the need to use exceptional procedures to face the unmet demand. This is why it is necessary to take these matters into account to be able to sustain and consolidate the proposed changes definitively.

Regarding this point, it is important to point to the significance of tending to, as fast as possible, the entire tax credit return or transaction process that entails rights for taxpayers. The challenge of systematization entails the reduction of the times of conclusion, the objectivity of procedural processes, and the standardization of transaction criteria. It is in this area where there is a great deal to do in terms of efficiency and transparency.

5.1.3 *The resources*

We cannot conceive the changes made in the last few years in our administration without the active participation of the people of the organization and without enough financial and material resources.

What is important is not only what is executed, but also how it is executed. All those who are part of the organization must have the firm conviction

that what they do on a daily basis is absolutely necessary to comply with their mission.

Only this way – clearly relaying this message and getting the commitment of people – will they feel they belong to “their” organization and will naturally and voluntarily apply their talents and make efforts to do their tasks.

The availability of financial resources compatible to the organization’s demands for change constituted an essential foundation to implement the processes faced.

5.1.3.1 Human resources

The nature and intensity of the changes in tax administrations constitute the main challenges for the current human resources administration.

In this context, it is a priority to adopt a proactive human resources approach that will explicitly acknowledge the need to ease the achievement of strategic objectives, acknowledging that the personal constitute a differential resource to achieve them. Having flexible human resources, with initiative that will promote their potential and with conditions to adapt themselves to highly dynamic conditions, is a determinant factor for our Project, and hiring people who meet this profile in the organization is a key task.

The following are some of the strategies the AFIP has set in this direction:

- A “Policy of Contributions and Revenues” establishing specific guidelines regarding the provision of personnel has been designed.
- Annually as a complement to the drafting of the Administration Plan, a Contribution Plan has begun to be designed. This implies thinking in advance about human resources needs according to the strategic objectives set each year.
- The dismissals of a certain year will be the vacancies available the following period and will be allocated to the various areas according to the priorities of the administration, without detriment to the additional needs that may emerge and are proponed to be met.
- The progressive implementation of an administrative model by duty has enabled us to determine more clearly the profiles required for the various posts.

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- The personnel are currently classified according to the post catalog available in the organization, and each position is in turn described by the main technical and administrative responsibilities.
- The administrative model by responsibility enables the incorporation of further flexibility, given the fact that the key changes to the processes or tasks of a post can be assimilated easily as long as the personnel have the necessary abilities.
- The personnel selection processes have emphasized the achievement of excellence and the adequate recognition of the required abilities by using mechanisms that guarantee their transparency.
- A candidate database open to the community through Internet, from which potential candidates are drawn and then incorporated following tests and an interview, which enable the evaluation of whether they meet or not the profile sought, has been designed.
- In general terms, training is an issue of constant attention to keep adequate levels of education and update in substantial themes. Likewise, the training geared toward administrative education is relevant for a better preparation for management changes.
- In this regard, training development programs adjusted to the needs of the agencies have been designed and have been incorporated into basic management levels and management programs. The latter programs are being redesigned comprehensively.
- Likewise, management levels have been tried to be supported in the use of management by responsibilities through the implementation of key experiences, accompanied by the specialized human resources personnel.
- We have a comprehensive human resources administration system, enabling the availability of complete and timely administrative information.
- Finally, we have sought to revise and further emphasize communication procedures, an aspect that is key to every process of change.

5.1.3.2 *Financial and material resources*

Tax administrations, as an integral part of the state, must adjust their procedures according to public order guidelines. Even though their ultimate objective is the protection of higher interests, in many cases they face restrictions regarding the possibility of obtaining the resources necessary to meet the infrastructure, remuneration, and technical material needs.

The lack of flexibility, the rigidity of procedures, the slowness and incapacity to accept changes, and the lack of responsibility regarding results lead to a routine, inoperative, and ineffective administration of organizations. Traditionally, the main justification alleged to face the criticisms emanating from these kinds of behavior is the lack of financial resources.

This type of resources is absolutely necessary both to obtain the resources for the sustainability of the state and to help taxpayers comply with and control their obligations.

Since almost four years ago, the Argentine tax administration has adequate powers to distribute the funds that are allocated to it and that correspond to a percentage of the collection. As a counterpart to the powers granted, the Federal Administration and the Federal Administrator must comply with an annual administration plan previously approved by the Executive Branch.

Despite it, there still are some difficulties resulting from the insufficient experience in modern and efficient budget execution procedures. This limitation constitutes a true challenge for each one of the managers in charge of such tasks. The adaptation process has not been stabilized yet regarding the training of resources and the norms that make these powers operational. The financial restrictions the organization faced for years triggered an adaptation to such circumstances that is complicated to change. The process will require administrative adjustments and awareness of the new reality by each organization.

5.2. The Implementation of the Strategy. The Importance of Culture.

The adequate execution or put into practice of a strategy is as or more important than the drafting itself.

Executing a strategy is nothing more than its conversion into a coherent set of performance initiatives and measures, putting into practice and obtaining information for its feedback.

In the specific case of the AFIP, this process is done through the elaboration and execution of the Annual Administration Plan, which outlines initiatives and indicators geared at achieving and monitoring the strategic and specific objectives defined by and expected from the significant changes to the processes, structures, systems, and work methodologies. This plan goes beyond what is known as the "Operational Plan," because the strategic guidelines defined for the administration period to be faced are outlined in it, as well as the mission, vision, and values that support the organization.

The implementation of strategies involves all the duties and people of the organization, but it constitutes the strategic axis up to which it is to evaluate and lead the three essential processes involved:

- the drafting,
- the implementation, and
- the control

In the Federal Administration, the objective is to materialize the *drafting process* through the holding of a series of meetings and workshops among the various authorities and divisions of the organization to debate, validate, and redefine the strategic objectives for the incoming period while starting to outline the goals intended for each main administrative indicator.

The implementation process of the strategy takes place through the drafting and subsequent execution of annual administration plans. In order to ease the assessment of the administration, indicators enabling the evaluation throughout time of the achievement of the budgeted results are included in it. These results define the values to be reached as an administrative demand during the period.

Meanwhile, the implementation process of the organization strategy is complemented through the execution of specific non-periodic plans aimed at solving problems arising from the prevailing situation. This is the case of the two phases of the AFIP's Anti-Evasion Plan, which as a result of the situation under which the Argentine tax administration did its tasks in 2003 and 2004, were judged as a necessary activity that cannot be postponed.

This plan, which had and currently has a high public repercussion, emerged as an initiative by the AFIP to proactively respond to the effects of the economic crisis that took place in our country and to the solution to problems identified by the organization itself in its daily management.

The execution control process of the strategy consists of the establishment of a control system over the activities carried out in the various areas of the AFIP, thus enabling the carrying out of a qualitative and quantitative evaluation of the entire organization in order to generate key information to make decisions.

Within the framework of the administration's current approach by objectives, an analysis of the administration geared toward the evaluation and assessment of the progress made on them is being constantly made, gearing their analysis in two large thematic areas: Project management and result management.

Project control is managed through relays and periodic consultations, informing each one of the areas responsible for the progress made during the period of the conditions that could affect the success of the initiative and the results achieved in each phase.

Meanwhile, the facet of the result control management is centered on the analysis of the indicators defined in the annual Administration Plan and the follow-up of the degree of compliance with the established institutional goals as a reflection of the objectives of the Federal Administration.

A major challenge for those who are in charge of executing the proposed strategy is the communication of such a strategy to the entire organization. Multiple factors have a significant bearing on the compliance with this objective, such as cultural reasons, lack of experience in and knowledge of execution issues, lack of frequency of evaluation and follow-up meetings on the execution of the plan, which attempts against the success of the mission.

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In this order of ideas, our Administration is developing an experience in the implementation phase in full whose key objectives are as follow:

- Increase and improve the channels of communication, so that all members of the organization know and learn what is the strategy proposed.
- Carry out a more horizontal and participative process.
- Continuously and constantly analyze processes and procedures.
- Achieve a better adaptation to the changes imposed by the context.

The proposed procedure stipulates a chronogram of meetings by the various levels of conduction monthly and/or quarterly, where issues that basically include those believed to have a strategic importance, chosen by high management and operational areas, will be discussed. This mechanism enables the exchange of ideas among officials who even though do similar tasks, do so within a very different context and sometimes with very different realities.

5.2.1. Conditioning factors

There are four main factors that condition the execution of the strategy, which must be taken into account at the time of making the strategic drafting, proposing actions leading to the implementation, minimization, or ultimately modification of the strategy itself to prevent possible conflicts.

Adjustment of culture to the proposed strategy

Culture must be defined as a set of shared values and beliefs that are developed within an organization throughout time. The organization's culture could affect or favor the implementation of the strategy by influencing the conduct of its workers, motivating them or not to achieve or exceed the objectives defined.

Adjustment of the structure to the strategy proposed

At the time of implementing a strategy, two structures – formal and informal – must be observed for three reasons. First, the organization's current structure could help or not or even prevent an effective

execution. Second, the execution demands the assignment of tasks to the various levels of the organization and to its personnel. Third, the informal organization could become a valuable tool that will facilitate a successful execution, because the informal communication network could be used to stimulate a quick implementation of the strategy.

Leadership

The role of the leadership is decisive in the implementation phase, because it is in it in which the work done in the strategic formulation and operational planning instances must be materialized through the efforts of the entire organization. The success of the formulated strategies will depend on it.

Policies for an effective execution

Policies are useful to support the strategic decisions made: in other words, they guarantee the cohesion and harmony of the entire process. Policies are in charge of the actions of the entire model, thus preventing contradictions among the various functions, as well as outlining the ranks for the making of decisions on the contingencies that could occur, therefore guaranteeing a proactive and consecutive process.

5.2.2. Management tools

There are various tools in the market that ease the monitoring of the implementation of the strategy. The AFIP is developing actions geared toward the evaluation of the feasibility of the application of some of them through the participation of its personnel in specific training workshops (Balanced Scoreboard Methodology) and the performance of pilot and concept tests.

In this regard, it is worth stressing the achievements of the testing of the systems that support the Balanced Scoreboard methodology (Oracle BSC) and others that ease the drafting and follow-up of projects (MS Project Server).

The achievements made in this regard notwithstanding, the times involved in the cultural and technological implementation process of these tools and systems in an organization of the scope and characteristics of AFIP made those responsible for monitoring the correct

implementation of the organizational strategy decide to move forward with the design, development, and set in motion of proprietary applications that could respond to short-term needs.

It is worth mentioning that the applications developed fully meet the current requirements regarding the pertinence and opportunity of information on the progress of initiatives and the follow-up of management indicators. This information is created and updated directly by the areas responsible for carrying out the execution of the strategy and is stored, through forms available in the intranet, in a centralized database, which enables, among other things, online consultations on the degree of progress made in the implementation of the strategy, visualizing the aggregate information by specific objectives or the detailed information by initiatives and indicators.

5.3. *The Alliances*

Strategic alliances could be defined as agreements or understandings that help organizations develop joint operation mechanisms and the making of decisions. They are based upon mutual respect and trust.

In general terms, they are geared at stimulating further and better cooperation among various players that have a saying in similar themes. Thus, through the synergies derived from the interaction, effectiveness, efficiency, and the sustainability of individual efforts are increased and maximized.

As has been said on various occasions, there are many challenges that organizations must currently face: the unstoppable technological progress, globalization, new economic processes, and the recurrent crises, which demand from entities in general and tax administrations in particular a change to their traditional ways and approaches.

Currently, strategic alliances constitute one of the main instruments organizations could use to successfully join this dynamic context: thanks to the understanding between two or more different social players, talks, and the detection of concerted objectives, we can define joint action plans to achieve mutually advisable benefits that enable them to overcome the obstacles imposed by the complex reality.

In fact, alliances could be useful for various goals simultaneously. We can mention the following among them:

- Fulfill the specific objectives of an organization or obtain whatever it is advisable to it (economic gain, institutional consolidation, stability foundations, information access, contacts, prestige, influences, and so on).
- Create a more harmonious system of coexistence, thus favoring the entire society.
- Promote more effective forms of participation that may generate development opportunities for themselves and third parties.
- Strengthen individual behavior, stimulate commitment, and improve the capacity to respond to the needs of the public.

Agreements constitute one of the most effective mechanisms to implement the desired changes, because by enabling the conciliation of interests and ideals shared among organizations, the technical cooperation areas from which innovation and growth process are promoted can be defined. Thus, each organization complements the current strengths of the other party, and the talents of both can be used, but combined in a unique way.

Starting with the multiplication of alliances, organizations can do the following:

- Increase the understanding among various sectors, generating solid and lasting links.
- Simplify the governance of organizations.
- Make the practical coordination among various players more fluid and effective.
- Improve access to critical information.
- Increase participation in the decisions and actions of other players in the related sectors.
- Improve the general levels of efficiency of the processes by lowering operational costs and distributing implicit risks.
- Focus on those aspects of its activities that “cannot be transferred.”
- Favor the emergence of innovative activities in a cooperative development process by integrating the processes in which various organizations intervene in coherent “packages.”

In short, alliances try to promote and strengthen the development of each one of the entities that make them up, starting with the concept

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of *cooperative work*, which implies the promotion, study, development, training, and research of issues of mutual interest. To do so, development, research, and technical cooperation agreements are established with universities; public, private, and mixed institutions; and nongovernmental organizations. Likewise, depending on specific themes, international cooperation agreements are signed with foreign organizations and institutions, generally dealing with the exchange of information and/or the transfer of *know-how* in horizontal cooperation processes.

Priorities regarding the entities that are pertinent to join to achieve an effective *strategic complement* must certainly be planned and established. To do so, we have to identify those niches of current and/or potential interests shared that could be found through cooperation, avoiding dogmas and rather inflexible positions.

In this process, at least three well defined phases can be identified:

(i) *Evaluation of the environment and diagnosis of the organization itself*

The analysis tries to explain the entire situation the organization is facing, systematizing and interpreting the scenario where the organization acts. To do so, the organization must also be informed about what is going on in its area of influence in order to influence the decision-making processes of third parties that could have a direct or indirect impact on it.

(ii) *Identification and detection of mutual needs and incentives*

Detecting and knowing the other players are crucial at the time of reaching cooperation agreements. This analysis must include not only those players that are already intervening (real players), but also all those with which there has been no interaction yet (potential players) This enables us to define the forms of cooperation starting with the shared motivations.

(iii) *Adoption of the concerted strategy*

Once the counterpart of the mutual incentives has been identified, talks must be held. The calls for such talks can come from any of the parties or can be promoted by another public or private institution interested in promoting forms of consensus.

Through talks, the intervening institutions can define the basic consensus in an action plan, which will be the conceptual and operational foundation of the alliance and that generally becomes an agreement.

In all processes, there is a series of crucial factors that are advisable to take into account:

- The degree of interest of the possible allies.
- Mutual convenience, which must respond to a sense of equilibrium and justice.
- The availability of the resources required that emerge as a result of the alliance.
- The capacity to manage the negotiation process and its subsequent set into motion, including feedback and the evaluation of the achievement of the objectives.
- The availability of information mechanisms that guarantee the transparency of the process.
- The definition of behavioral norms for the correct, honorable, and adequate compliance with the duties of each institution. These norms must be geared at preventing conflicts of interest and guaranteeing the preservation and adequate use of the resources allocated as a result of the established alliance.

Situations and environments are never alike, and this is why it is essential for organizations to adapt themselves to the characteristics typical of each situation. The complex inter-institutional relations give way to multiple forms of strategic alliances. In the particular case of the AFIP and given the crucial significance of the access to external databases in key recovery and oversight processes, the main lines of intervention have focused on the exchange of information with other organizations.

Anyway, the election of the cooperative work with other entities as a development tool is based upon the organization's strategic mandates, having expressly been incorporated into the institutional "vision," which states that "the AFIP will become an important pillar for the development and sustainability of the economy thanks to the actions by and the sum of the efforts by public, social, and private organizations..."

In agreement with this vision of the future, the organization has promoted an important rapprochement with multiple entities of all sorts in the country and abroad, reaching formal agreements with many of them.

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Among the main internal sources, we can mention the agreements reached with the National Industrial Property Institute (INPI), the National Automotive Property Institute, and the National Copyright Directorate. In addition, in early 2005 we reached an agreement with the Public Administration Deputy Secretariat in order to make possible the design, organization, and execution of various types of actions geared toward the respective objectives.

The agreement recently reached with the Central Bank of the Republic of Argentina (BCRA), according to which the AFIP transfers technology (especially the human resources administration and management system – SARHA) in exchange for guaranteeing access to information, which is presented in such a way that is compatible with the needs of tax administration, deserves a special mention. The agreement reached with the National Social Services Institute for Retirees and Pensioners – INSSJP, PAMI – which is also given technical support and training, also deserves a special mention.

Meanwhile, progress had been made on cooperative systems with the provinces in a mutually beneficial exchange through which the provincial governments have access to technology dealing with database management and transactional systems (extending the use of the OSIRIS system, standardizing record formats, and so on) for local tax collection in exchange for the adaptation of its data to standards compatible with those used by the AFIP (adoption of the CUIT as a compatible element of taxpayer information identification and registration, standardization of oversight criteria, and so on).

The reciprocal collaboration work with the provinces also incorporates longer-term aspects, such as the agreements on tax education, with special emphasis on the training activities of local human resources. Up to now, “framework agreements” have been signed with the governments of the Autonomous City of Buenos Aires, the Province of Buenos Aires, Santa Fe, Cordoba, Jujuy, Salta, Mendoza, the City of Cordoba, and, the City of La Plata.

Likewise, progress has been made with the Justice Inspectorate General on the adoption of measures dealing with previous and concomitant controls for the registration of corporations, thus strengthening the available information for its use in control systems. An agreement has been signed with the National People’s Libraries Protection Commission (CONABIP), which reports to the Nation’s Secretariat of Culture, in order to “*reciprocally cooperate in the activities*

necessary for the dissemination, promotion, and execution of the “Citizen Information” program, including the training of the members of the People’s Libraries in workshops and training sessions on the right to information and the various topics addressed by the aforementioned program.” This initiative proposes a new way to contact citizens, because the AFIP places at the disposal of the CONABIP certain contents to be posted in its web page and/or to be forwarded to the people’s libraries. This is how a larger presence of the Tax Administration in social and cultural means is sought.

The systems associated to the private institutions are based upon the perception of potential gains for the players involved. Thus, the AFIP has reached a mutual cooperation agreement with Telecom-Telefonica, through which the “Online AFIP Services” for Internet cafes and public telephone centers are created. As part of the program, training and support are given in order to broaden the availability of the web services of the AFIP, trying to increase Internet access.

The international arena offers various opportunities to collaborate through the various regimes and institutions that make it up. Among the cooperation actions with international sources, the agreements reached with other tax administrations and those dealing with the integration of processes in Mercosur have been particularly relevant.

In this regard, it is worth mentioning the exchange of customs records (INDIRA-Mercosur), which entails the reuse of data to generate reports or dispatches automatically within a framework of information confidentiality and protection, and the International Customs Transit Information System (SINTIA-Mercosur), which enables knowing the destination of merchandise in transit, lowering operational costs and transaction times. At the same time, the process was defined to guarantee the consistency of the data starting with a single registry of shippers, among other measures aiming at optimizing control actions.

Meanwhile, the dual taxation agreements signed with seventeen countries have currently enabled the estimate of the taxes paid to other jurisdictions and the reciprocal cooperation for the interpretation of controversies. In addition, thanks to the agreements signed with the tax administrations (Spain, Peru and Brazil), progress has been made on mutual assistance projects for the prevention of tax evasion and fraud. Negotiations with large tax administrations in the region are well under way.

As has been said, in some cases the local agreements or the agreements reached with foreign players reinforce already existing inter-institutional relations; in other cases, fruitful ties for the parties are sought. Especially referring to the agreements with institutions located in the country, such actions strengthen institutions by making them stronger through a better use of the resources available in the public sector.

The results being obtained from these experiences are highly satisfactorily not only because of the positive inter-organization synergy, but also because of the great deal of learning the AFIP is accumulating on the topic. This is why one of the main lessons that have been incorporated thus far is focused on the special efforts that must be made to promote in the counterpart the feeling of trust, responsibility, discipline, commitments, and security, because they are key factors for the success of strategic alliances.

6. THE NEW STRATEGIC ROLE OF INFORMATION TECHNOLOGY

Tax administrations must make systematic and permanent efforts to open themselves to the context and generate mechanisms that enable them to timely and deeply know the changes that are taking place, so as to be able to define strategies – both external and internal to the Administration – compatible with the scenarios perceived.

In this context, the application of information technology in the compliance with the mission of tax administrations is not currently an alternative, but a condition necessary for the success of management.

This conviction is the one that led to keep this section to analyze the issue and, especially, describe the path the Argentine tax administration is taking to make information technology one of the essential pillars that support its operational management processes, especially its strategic decisions.

6.1 The Evolution of System Areas in the Tax Administration

System development activities have continuously evolved in the last few decades. The level of infrastructure and information resources available in the times of the first “computer centers” and the type of needs of the various organizational units made the duties of the system area be focused on complying with certain specifications without delving into what the

problem to be solved was (for instance, the generation of payment reports, batch form processes, the generation of databases, and so on).

Likewise, the system areas used to depend on different units, creating a barrier between them and high management and in most cases not having formal links among the objectives of the tax administration and those of the systems.

The growing technological development and the ever larger complexity of operational problems and needs made the information areas of tax administrations evolve to get directly involved in the analysis of problems and start becoming providers of more complete internal services.

At the same time, the new technologies enabled the development of smaller and cheaper equipment, ending with the emergence of PC's, which got informational tools closer to users. This phenomenon led to the "rebellion" of users, who began developing independently from system departments.

As a result, a series of applications emerged, many times isolated among them and with a great deal of bearing on data load and archive. In this context, system management consisted of allocating resources and giving priorities to the requests of users, using criteria based upon the ease of implementation, technological novelty and attraction, the "clout" of the requesting functional unit, and the cost of the development to be done.

Currently, the challenge is to make the defining areas responsible for the various duties of tax administration (operations, recovery, oversight, collection, resource management, and so on) and those that develop information systems work together to make a more valuable contribution to the improvement of the various management processes.

To do so, high management must intervene in the allocation of information technology resources, given the large investments they entail and the need to heed the complaints of users who do not see their needs adequately met. It is necessary to define formal system planning procedures by establishing systematic plans of definition of coherent needs along with the strategic objectives of tax administration and those of operational and functional units.

A further step with a large potential to generate value for the organization is to turn information technology into a generator of various abilities and skills to put tax administration in a better place to successfully resolve the challenges of tax recovery and the control of foreign trade in a modern economy.

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The forms of information access, the volumes of data that can be stored and accessed to in real time, and the flexibility to be able to use the information intelligently are decisive steps to redefine and implement new service and control strategies.

The new management models get leverage from these new knowledge technologies, which enable a sensible increase in the sensibility and flexibility of our organizations.

Within this framework, the Argentine tax administration has faced a redesign of information platforms, so as to leverage the change strategy formulated for the major operational processes: recovery and collection, oversight, and taxpayer services.

6.2 The Recent Argentine Experience

Starting in 2002, the AFIP developed its management strategy based upon the concept that it is impossible to manage a tax administration with millions of taxpayers and transactions without an intense and intelligent use of technology.

The model in place until then implied the coexistence of six key development and system operation areas, more than 140 small computer centers in the countryside, which reported to various jurisdictions. This situation led to the following:

- Multiple system architectures and development and operation methodologies or platforms.
- Multiple methodologies and criteria to identify, authenticate, and authorize internal and external users.
- Systems designed by a completely different environment based upon the mass dispersion of databases and very complex procedures to synchronize them.

Starting with the change to the AFIP's system structure to seek its standardization, promoted by some internal sectors and recommended by international organizations, an information change strategy was developed, consisting of the following:

- The consolidation of all information resources into a single hierarchical structure.
- The design and implementation of a single, homogeneous, stable, and controllable system architecture for all the new applications

of the organization. This architecture should have allowed a significant increase in the following:

- The speed of development of new services.
 - The centralization of data in a single computer center.
 - The consolidation of a single taxpayer database, a single return database, payments, and so on with access to all systems in real time and direct access to the “core” databases of other systems.
 - The mass opening of the organization to Internet. All tax, administrative, and customs services will be offered via Internet.
 - The mass implementation of G2B services for the relationship between AFIP and G2G companies with the State.
- The maximum possible reduction of the various system development and operation platforms and their alignment to the new architecture.
 - The design and implementation of an authentication and authorization procedure for external users common to all systems.
 - The design of a single audit track generation procedure.
 - A single “web Services” standard for G2B applications.
 - Boosting the processing and communications structure.
 - Procedures to gauge the quality of internal and external information services.
 - A massive method to authenticate and authorize taxpayers.
 - Central computers, servers, links, and stable and reliable telecommunications systems, operating 24x7 with 99 percent availability and without maintenance windows.

The gradual implementation of the just detailed strategy led to some relevant benchmarks worthy of being detailed in order to help understand the degree of success of this change process:

- In late 2005, with the sole exception of the social security resources distribution system, no tax, administration, or customs systems will be older than four years.
- Except for the financial economic management system (ERP), which will be implemented soon, all the other tax, customs, and internal management systems have been designed and developed by AFIP personnel.
- Transversal access to databases was implemented. All systems, even those of the mainframe, have direct access to the databases of other systems. No database is duplicated even when it resides in different information platforms.

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- A mass system to register, authenticate, and authorize external taxpayers was implemented, and it is used by all tax, administrative, and customs systems.
- The amount of development and production environments under use in the organization was reduced to four.

The results achieved have enabled taxpayers and customs operators to have access to AFIP services and generate the centralization of support systems for recovery and oversight processes.

As a counterpart to this phenomenon, human resources were allocated to areas of activities in which our personnel could add further value to the task at hand. For instance, verifications, office oversight, and/or issues linked to control and oversight management.

This trend will be consolidated in the near future, and this is why it is ineludible for our country's tax administrations to continue to take the technological jumps necessary to turn information technology into a source of generation of institutional and operational strategy, participating in the process since the beginning and offering their huge potential for the generation of significant progress to guarantee an excellent management.

7. FINAL THOUGHTS

Change is a natural and permanent condition of our organizations. The directors' responsibility is to create conditions to ease work environments that are favorable to change.

Those responsible for the various management levels of tax administrations, whether they have operational, functional, or support duties, must become aware that there currently are no true reasons to remain perplex due to discussions on this issue.

The next few years will undoubtedly demand a leadership that is in condition to promote management styles that foster proactive attitudes in the various components of our organizations at all levels and responsibilities.

A significant challenge will be to develop the necessary management competencies to acknowledge, in time and form, the opportunities the correct use of IT has for reconversion or the improvement of all management processes, with the possibility of obtaining much more and better results for a great deal less.

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The application of information technologies will be more sophisticated, professional, and comprehensive, but the viability of change is not exclusively technological or technical in nature. It also requires a strong cultural change in the manner in which the members of our organizations see themselves and the organization for which they work.

Changes are difficult, but possible, and they are our responsibility toward ourselves, our organizations, and the entire society.

Case study

TOPIC 2.1

MANAGEMENT MODEL AND STRATEGY

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CONTENTS: 1. Profile.- 2. Figures.- 3. Mission Statement.- 4. Organizational Structure and Management.- 5. Database Management.- 6. Levying.- 7. Audit.- 8. Collection.- 9. Service.- 10. Personnel.

1. PROFILE

The Dutch Tax and Customs Administration has a wide range of tasks. We levy, audit and collect national taxes and social security premiums, supervise imports, exports and goods in transit and investigate tax, financial and economic fraud. We often work on behalf of other ministries. For instance Customs implements many non-fiscal regulations in the areas of the economy, public health, security and the environment.

The number of tasks the Dutch Tax and Customs Administration performs is still growing. We are preparing for taking over (in 2006) the collection of employee insurance contributions. Not only that, in addition to our collection duties we are also about to specialise in paying out allowances. Since January 2005 we are paying out childcare allowances.

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And in 2006 we will be taking on payment of care allowances and housing allowances as well.

People have high expectations of us. We have to work quickly and without making mistakes, be reliable, accessible and honest. We also have to show that we take tough action against those who violate the law.

People also expect the government to make it easy for them to fulfill their obligations. When they have given information to the Administration, they do not want to provide the same details again to the same or other government bodies. If a business taxpayer has to have his records audited, he would rather it were done all in one go, on the basis of straightforward, consistent and not overly detailed legislation. From his perspective, it goes without saying that there should be cooperation among public authorities.

In 2004 the "Changing Government" action programme was launched. This overall modernization programme of the Dutch Government has given cooperation between public authorities an additional boost. The intention is to increase citizens' confidence in government by making visible improvements in performance.

It is therefore very important for us to improve the quality of the service we provide. Last year, as part of that process, we set up a joint Business Desk with the Chamber of Commerce. We also worked closely with tax consultants and software developers to make compulsory electronic returns for business taxpayers – covering VAT, intra- Community supplies, income tax and corporation tax – reality. In addition, for the first time, taxpayers did not have to submit a return before obtaining their provisional refund for 2005 as the Dutch Tax and Customs Administration worked it out automatically using the information available.

Cooperation with UWV (Employee Insurance Administration) will mean that separate returns for taxes and social security contributions at one hand and employee insurance contributions at the other hand will be replaced by a single, combined return for wage tax, social security contributions and employee insurance contributions.

Less visible, but no less significant, is the progress we have made in putting into place government-wide facilities for security and data management. Without this kind of necessary infrastructure our aspiration level for providing services electronically cannot properly be realised.

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Our examination and supervision function rose very high on the political agenda last year. This was a direct result of the publicity about the non-compliant behaviour (tolerated by the Government) of the population of Vinkenslag, a trailer park in the surroundings of Maastricht in the south of the Netherlands. There is only one way for the Tax Administration to ensure that “tax refuges”, where people can evade their statutory obligations, do not spring up. That is by cooperating with other enforcement agencies. It is not only tax fraud that has to be tackled in such places; it is usually accompanied by social insurance contribution fraud, illegal employment, benefit fraud and breaches of planning regulations.

Municipal authorities in particular have an important role to play in enforcement as police officers have to be deployed to provide our staff with the necessary protection. Since De Vinkenslag we have been in contact with local authorities nationwide, signing covenants on cooperation and exchange of information between municipal authorities, the police, public prosecutor’s offices and our Administration.

Just as important as these cooperation agreements at local level are the agreements we make for the exchange of information with enforcement agencies at international level. Various European tax administrations supplied us with details of bank accounts, capital and property held in their countries by Dutch nationals.

We use this information to collect large amounts of undeclared tax while the FIOD-ECD (Fiscal Information and Investigation Service and Economic Investigation Service) carries out a number of criminal investigations.

Customs, for its part, shows that effective cooperation can also achieve significant results in the fight against organised crime and drug trafficking. An example is the international customs operation “Mercurie II” targeting Ecstasy smuggling, which was executed in 25 countries in November 2004 with the assistance of Europol and the World Customs Organization, shows the potential of international cooperation. Such cooperation will need to be developed further if Customs is to achieve its ambition of playing a more active role in protecting society.

However, important though it may be, we do not see cooperation with others as an end in itself. There is only any sense in it if we believe that it can lead to improved results. So the only way to work out whether a particular operation was worthwhile is to look carefully at what we wanted to achieve, what we did achieve and how much it cost.

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That is why it is essential to take stock of results at suitable intervals and render account. By getting into a discussion about our performance we can see whether we are on the right track and consider where we may need to make adjustments. For individual members of staff this happens in their performance assessment interviews, while the organization as a whole renders account in an annual report.

Changes usually take a long time. Two years ago we started to change our organizational structure so as to give staff more scope to share responsibility for the organization's results. We moved from a vertical management model (based on taxpayer target groups) to a more horizontal one (based on processes): shared-management teams now decide what the organization's overall direction will be and it is then up to self-managing teams to determine how a specific outcome is achieved.

Although we have made some progress with self-management, there is still a long way to go. In practice it has proved quite difficult to tackle each other about the progress and quality of work done.

On top of that the Tax and Customs Administration was required to make serious budget cuts by reducing staff. This created a climate of unrest in which any cultural change is bound to be difficult. Although we did manage to make economies without compulsory redundancies, over the last year we lost many experienced members of staff who took advantage of the flexible pension and retirement scheme.

However, the chosen course of self-management and shared-management teams will be maintained. The Dutch Tax and Customs Administration decided to continue, slowly but surely, to refine and deepen the basic principles of the chosen direction – individual responsibility and initiative.

2. FIGURES

The Netherlands has a population of 16.1 million inhabitants. We have 7.7 million income taxpayers, of which 6 million being private taxpayers and 1.7 million businesses. We have 650 thousand businesses paying corporate income tax and 1 million businesses paying VAT.

The Tax and Customs Administration collected 143 billion euros in 2004, the main share being taxes (106 billion euros), the other part being social security contributions and revenues from other sources.

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In 2004, the number of income tax returns filed electronically was 4.9 million. This was around 69 % of the total.

Customs processed 4.6 million Import declarations and 4.5 million Export declarations in 2004.

The total costs of the Tax and Customs Administration were in 2004 2.3 billion euros, divided in 1.5 billion personnel costs and 0.8 billion material costs.

In 2004, the Tax and Customs Administration had 31,097 personnel in full-time jobs. The proportion of women employed rose slightly to 31.1 %. The greying of the working population in the Netherlands is also evident among the Administration's staff. In 2004, 51.8 % of all personnel were aged 45 or older.

3. MISSION STATEMENT

The Dutch Tax and Customs Administration is a central government organization and because people have high expectations of government bodies (in terms of social commitment, openness, willingness to cooperate) they are always subject to critical scrutiny. That is particularly true of the Tax and Customs Administration, and for good reason: we are the sole body in the Netherlands responsible for levying, monitoring and collecting national taxes and for overseeing imports, exports and the transit of goods.

Apart from that, as a law enforcement organization we have a number of powers that other organizations do not have: we can impose fines, search premises, seize property and put people in detention. Furthermore we have access to all kinds of confidential and sensitive information that is not available to ordinary people.

Because of our special position, tasks and powers people are entitled to expect us to perform our duties with integrity – which is exactly what we want – because they rely on us. The Tax and Customs Administration will always try to take proper account of the expectations of the groups we are involved with: taxpayers, politicians, supervisory bodies, other government organizations, tax consultants and suppliers. Individual citizens and companies expect the Administration to adopt a service oriented attitude and treat them with respect. Moreover, they take it as read that we will use and manage the personal data they entrust to us in the way provided for in the relevant legislation.

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What the expectations of the groups with whom we deal mean to our work, is set out in the Tax and Customs Administration's mission statement:

We must implement legislation as effectively and efficiently as possible, while striving to maintain legal certainty and equality before the law, work in a service-oriented way and treat the people we deal with respect, whether they be within or external to the Administration.

The mission statement imposes requirements as to the way we work: how to check tax returns, speak to taxpayers, manage processes, inspect goods etc. Nevertheless it is not possible to lay down rules for every single situation. In practice staff members are themselves partly responsible for the way they give effect to the mission statement. They have to decide how to perform their duties with integrity.

To put the mission statement into effect together and exercise the related personal responsibility appropriately together, the Tax and Customs Administration has adopted a set of shared, basic principles, which we call our “**basic values**”: **credibility, responsibility** and **scrupulousness**. These three basic values guide the way we work. And because they apply to all of us, they make us recognisable. They are, you might say, the Tax and Customs Administration's calling card. They tell our clients and other stakeholder what we stand for.

4. ORGANIZATIONAL STRUCTURE AND MANAGEMENT

The current organization chart of the Dutch Tax and Customs Administration consists of the Directorate-General at the Ministry of Finance, 20 operational services and 4 facility services. The Director-General chairs a board of five. The board is supported by 12 policy teams.

The operational services:

- 13 Tax districts
- 4 Customs districts
- Central Office
- Fiscal Information and Investigation Service/Economic Investigation Service
- Benefits (from 2006)

The facility services:

- Centre for ICT
- Centre for Professional Development and Communication
- Centre for Process and Product Development
- Facilities Service Centre

The structure of the organization is not an objective in itself. It is an answer to the specific need of the organisation in a specific situation. Structures permanently change. Up to the nineties of the last century the structure of the Dutch Tax and Customs Administration was based on different types of taxes and the processes assessment, control and collection were separate. Working with this structure, we didn't find the right solution to combat growing tax avoidance and tax fraud. We were too bureaucratic. There was a lack of cooperation. We couldn't handle the growing workload and we weren't able to serve the taxpayers and help them with their very complex tax obligations.

To solve these problems we introduced a system of differentiation in taxpayer treatment based on risk assessment. And we revised the management method thoroughly from a fairly centrally led bureaucratic management system to a more decentralized and result-oriented management system, in which concepts such as integral management, decentralisation, contract management and planning and control played a central role. The business culture, i.e. the organization's standards and values, had to be converted from being bureaucratic, risk avoiding and inward looking into being "entrepreneurial", outward looking and oriented towards being a service provider.

Initially, this reorientation, in terms of both the primary processes and the management method, took place under the belief that the organizational structure could remain unchanged. But the lack of coordination and cooperation remained and became more and more manifest.

In the early nineties a major reorganisation took place in the Netherlands, whereby a classification according to taxpayer target groups was introduced. Integrated target group directorates were responsible for all taxes and processes for their specific target group of taxpayers (Private taxpayers, Small and Medium-sized companies, Large companies and Customs).

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The restructuring process did not only involve adjusting the general structure, but also restructuring the business process to provide optimum support to the focus on taxpayers. This concerns three elements: logistic processes, data structuring and the content of the actual treatment process.

Logistic processes

A critical success factor for the Dutch Tax and Customs Administration's functioning is how fast it can deal with tax returns, objections, correspondence and requests. Short processing times ensure that taxpayers quickly acquire certainty about their tax obligations. Quick action will also make the taxpayer feel that the Tax Administration takes an interest in his tax position.

Data structuring

In order to realise these short processing times, the logistic processes as regards the flow of documents and money should be adequately streamlined and managed. For taxes involving assessments, e.g. income tax and corporation tax, this is achieved by working with provisional assessments that correspond as much as possible to the tax liability (material, i.e. resulting from the law).

The actual assessment takes place when the tax returns have been submitted, and results in the assessment (official tax liability). For self assessment type of taxes involving tax returns, e.g. wage tax and turnover tax, this is achieved by means of monthly or quarterly installment payments. This method results in a system in line with the "pay-as-you-earn" principle.

The focus on taxpayers is based on the idea that a better quality of levying can be achieved by structuring data by taxpayer or by group of taxpayers, on the one hand in order to better combat misuse and improper use of tax laws and on the other hand to be able to support taxpayers in fulfilling their tax obligations. This external focus leads to the requirement that data be organized by taxpayer (or group) in such a way that it can be used coherently.

Actual treatment

The changes in the approach to actual treatment process constitute the third element of restructuring the business processes. Before the restructuring process, the treatment process was mainly document oriented. This means that individual tax returns were checked for correctness and completeness. The taxpayer was, so to speak, a derivative of the process. Right now the central focus is on the taxpayer.

The method of treatment varies according to the level of complexity as described above. Knowledge about the industry or business (Companies), the professional group (Private taxpayers) and the flow of goods (Customs), together with tax knowledge, provide the basis for this treatment. The objective is to provide the degree and form of attention required in a timely manner, and to use an anticipatory rather than a corrective approach. The optimum combination results in the adequate treatment of the total file of taxpayers. Optimum here means the combination of forms of treatment that have a clearly preventive effect due to the visible presence of the DTCA and the perceptible risk of being caught, expressed in the effective execution of the treatment.

The implementation of the change from document-orientation to client-orientation required an improvement of the registration of taxpayers. File management became a separate process, being a key element in the performance of the Tax Administration.

Although the introduction of the target group or taxpayer segment structure model has set a trend for many other tax administrations, we have changed our structure again. The target group-oriented approach will remain as a strategic starting point. However, it is no longer visible in our organizational structure. The central idea of the new structure is upgrading as a result of the merger of local units with regional offices with an average staffing of 1,500 personnel. The target group directorates were closed. The regional offices are in charge of most of the tasks of the former target group directorates.

A Centre for Process and Product development was established to centralise the development, in a coordinated and professional way, of information systems and work methods. Knowledge groups of experts in the tax-technical area were established to guarantee unity of policy and enforcement of the tax laws.

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The new Tax and Customs Administration stands for:

- a learning organization that can do without rigidly determined schedules and target visions,
- an organization in which staff and managers are flexible enough to accept different roles and professional relations,
- an organization on the move, without partitions and permanent structures because change and adaptation will be the rule,
- an organization that is never complete – new circumstances and situations will constantly arise.

Typical of the new structure and management model is a focus on processes. The most important elements of the process model are low-threshold services, the even-handed supervision of target groups, and efficient mass data processing.

Focussing on processes demands steering and the development of processes based on chain management. The latter covers various aspects: policy, design, production and control.

There must be regular direct contact between those who are in charge of production and those who bear responsibility for the policy of the Dutch Tax and Customs Administration as a whole. In particular, the quality of the design operations is essential if the organization is to continue to perform properly. Because of the vital importance of management of innovation and the implementation of policies, the abovementioned research and development directorate was formed (Centre for Process and Product development).

Standardization

Enforcement of the law occurs through the standardized treatment of symptoms of risk, irrespective of whether or not the latter are of a material nature or relate to the technicalities of taxation or customs. This is reflected in risk profiles, rules of selection, treatment modules and so forth. This is the manner in which substance is injected into the DTCA's overall achievements: "treat our clients in accordance with the applicable standards". There is still room for improvement at the level of standardisation (establishing the appropriate objectives). And there is a need to develop better and stricter standards. However, establishing standards is one side of the coin. Controlling the results that are achieved represents the other, equally important side. Control is the indispensable, periodic verification of previously made choices.

Customer-focused and goal-oriented

The DTCA plays an indispensable role in society. It ensures that funds are obtained to finance numerous public facilities. In addition, the Customs Division has a duty to protect society against undesirable goods. The DTCA wishes to be a customer-focused and goal-oriented organization, and would therefore like to achieve compliance on the part of private individuals and companies with the aid of its products and services.

The Dutch Tax and Customs Administration has traditionally sought to utilize the budget it is given, effectively and efficiently. The planning and control cycle (from business plan to annual and managerial reports) lays the basis for this. However, society represented through the parliament is increasingly demanding an insight into the manner in which government performs its tasks and regulates the expenditure associated with this.

Both in the budget and financial report there needs to be a clearly defined relationship between proposed policy, the results that are ultimately achieved and the costs incurred. Therefore is a need to specify what measurable outcomes are envisaged, how they are to be achieved and at what cost. At the end of the day one has to account for this and, if necessary, explain why plans were not fully and properly implemented. For this reason the project Goal-Oriented Management (GOM) was initiated several years ago. A goal-oriented administrative model has been developed as part of GOM.

The recently implemented changes in the structure of the organization did not result in a fundamental transformation of the administrative process and managerial style. However the emphasis shifted to the following aspects:

- a more explicit focus of management on processes (chain management),
- the application of the concept of integral management teams,
- the implementation of the vision of self-regulating teams,
- the promotion of flexibility, a goal-oriented approach, and the deployment and development of personal competencies within the organization.

5. DATABASE MANAGEMENT

The Administration's vision for the future is an electronic service, in which the exchange of messages with other government institutions, business and tax consultants is fully electronic. By exchanging data electronically wherever possible, minimising human intervention and standardising processes, the administration will be able to work faster and at less cost. Moreover, links to companies' own computerized accounting systems will reduce the burden on businesses.

Electronic tax return systems

In 2004, a new electronic customs system became operational, that allows declarations for all goods entering the Netherlands from non-EU countries to be processed automatically. Businesses were already able to use the European electronic customs system (Transit) to submit electronic declarations within the EU. That system became mandatory for business authorized to transport goods using simplified customs transit procedures. Business representatives in the Netherlands were closely involved in developing the new version of Transit from the start. The introduction of these systems means that businesses have a simpler, more efficient logistic process. And Customs can deal with the declarations more quickly and they are also less susceptible to fraud.

The electronic tax return for business was also a major step towards an electronic service. Since 1 January 2005 businesses have been obliged to submit their income tax, corporation tax and VAT returns electronically. Electronic salaries tax returns will be made mandatory later.

Employee insurance contributions

The Tax and Customs Administration is going to levy and collect compulsory employee insurance scheme contributions from 1 January 2006. This work is currently still done by the UWV. In future, instead of submitting a salaries tax return to the Administration and a return showing employee insurance scheme contributions to UWV, employers will only have to submit one single, combined, electronic return to the Administration. This fits in with the government's aim of reducing the number of government offices that individuals and business have to deal with.

Allowances

Another additional task for the administration is the administering of means-tested allowances: childcare allowance, housing allowances and care allowances. A new organizational unit has been created to administer these means-tested allowances. The new unit will eventually employ over 900 people, including staff coming from other Ministries.

Security

To ensure that the large flows of electronic data expected in the future can be processed securely, modifications to the technical infrastructure are needed. All the security measures needed on the Tax and Customs Administration's electronic 'gateway' were put in place. Here all incoming messages and are subjected to an integrity check (to screen out any viruses) and spam is blocked. Only then are the messages and the data they contain allowed through for further processing.

6. LEVYING

The benefit to the Administration of electronic returns is that they can be processed more quickly, efficiently and easily, and with less chance of error. Staff will only see such returns if they require particular attention. Business taxpayers and their tax consultants will benefit from a reduction in administration and the consequent savings. Business taxpayers will only have to enter figures into their accounting software once, which then creates the return automatically. That reduces the chances of input error.

To ensure that Administration staff was able to keep up to date with all the developments and handle electronic returns with confidence, regional implementation managers were deployed and investments made in training. Other measures included the setting up of an Electronic Messaging telephone helpdesk for business taxpayers and their consultants. Special meetings for consultants were organised. Information was sent by mail and put on the Administration's website for business taxpayers, tax consultants and software developers.

Automatic provisional refund

Annual applications for provisional tax refunds always used to generate a large number of forms and diskettes, which the Administration then had to process. For that reason the process was made simpler and cheaper by introducing the automatic provisional refund, worked out by the Administration on the basis of the provisional refund of the previous year and other data available. This concerns around 2.5 million taxpayers.

7. AUDIT

The Tax and Customs Administration checks whether people have fulfilled their tax obligations. Because taxpayers believe the risk of being caught is smaller than it was and because society has become less tolerant of non-compliance the organization has tightened up on supervision, inspection and audit.

The Administration wants a clearer, visible presence in society, giving the message that we take tough action against fraud. We take steps in that regard, such as signing covenants with municipal authorities. We are also working with other organizations at home and abroad with a view to improving the quality of our supervision.

Horizontal supervision

The Administration aims to use horizontal supervision to give civil society organisations an active role in monitoring compliance. We started a project aimed at identifying the possibilities and implications of horizontal supervision. The central issue was: how can the Administration and society tackle supervision together in the smartest and most effective way possible? Many ideas came up and were collected to put in practice.

Supervision that makes difference

Tightening up on supervision is one of the tasks characteristic the Administration's internal policy plans. Our aim is to have a clear and visible presence in society and show that tough action is taken against fraud. This is expected to increase voluntary compliance on the part of taxpayers. We will work more selectively and carry out a greater number of substantive audits. Mandatory electronic returns for business

taxpayers will also contribute to better supervision. The availability of digital data will make it easier for us to select taxpayers for audit inspection. This will make supervision more focused and enable us to concentrate on those businesses that require special attention.

Vinkenslag

The Tax and Customs Administration featured heavily in the news in spring 2004. This as a result of the 'Vinkenslag Affair'. It came to light that an agreement had been made with residents of De Vinkenslag trailer park in Maastricht, that their business activities would be taxed at a rate not sanctioned by law. The media subsequently ran stories about other possible unlawful non-enforcement agreements in various other 'tax refuges'. These are places with a serious law enforcement deficit in regard to the levying and collection of taxes, but also in regard to many other law obligations. Examples of such refuges are trailer parks, call shops and prostitution business.

On request of the State Secretary of Finance the Tax and Customs Administration had to list all unlawful cases. The Administration disclosed five hundred such cases. The State Secretary informed the Parliament and took a number of measures to restore proper enforcement. The chief characteristic of the measures was their integrated, government-wide approach. Measures were put into effect in cooperation with municipal authorities, the police and other executive and inspection bodies; covenants on action against tax refuges were concluded with the municipal authorities of the most important cities in the country.

Various internal measures were also set in train: a refresher course on procedural law for managers and all staff responsible for enforcement and a work instruction on how to determine what is and what is not unlawful.

Intervention teams

A new initiative is the deployment of so called 'intervention teams', which audit certain aspects of business taxpayers' activities in a specific sector or region in a predetermined period. The teams are mainly concerned with undeclared earnings, illegal employment, benefit fraud, contribution and tax fraud. The teams are staffed jointly by the Tax and Customs Administration, Labour Inspectorate, UWV, Social Insurance Bank, police and municipal authorities. They were set up in response

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to the government's wish to intensify action against all forms of fraud and illegal work.

By working together in these teams, with staff drawn from different backgrounds and with different expertise, fraud can be tackled quickly and effectively. The integrated approach also provides a good picture of the different forms of fraud that are being perpetrated.

International exchange of information

International exchange of information is an important weapon in the law enforcement armoury. A recent experience with the computerized exchange of information demonstrated how extremely valuable foreign information can be. The Tax Administration received information about income from pensions and employment during a trial information exchange with Belgium, which could be linked directly to taxpayers. This enabled us to issue accurate tax assessments.

The results of the trial prompted us to carry out a national operation to recover unpaid tax. The taxpayers selected were those highly likely not to have declared their Belgian income in full, if at all. Processing of the information will be completed in this year.

8. COLLECTION

We want more customers who comply voluntarily with their tax obligations; fewer 'regulars' who need special attention; efficient customer handling and minimisation of lost revenue. In order to support these policy goals the Administration is now applying a more risk-based approach, which is new for us in the collection process. (We have been using risk-based methods in our assessment and audit processes for many years of course but so far not in the collection process).

Whereas the old system made no distinction between good and bad payers, the new system is based on risk profiles: the level of risk determines the approach to be adopted. We are now tackling high-risk cases quickly, in an individually-tailored way, giving them extra attention and intensive scrutiny. Experience and research have shown that the longer the collection process takes the less change there is of recovering the tax due. That's why we have a strong focus on pursuing and dealing with long-overdue debts.

New collection process

From 1 January 2005, taxpayers who are late in paying what they owe will receive, free of charge, a payment reminder and giro payment slip. The reminder advises them that the Tax and Customs Administration call centre can help with any questions they may have and provide them with information on their tax position. If the amount due is not too large, the call centre staff can authorise deferred payment there and then. The object of payment reminders is to speed up the flow of payments. However, if the reminder and contact with the call centre fail to achieve the desired result a tax demand will follow. If that, too, fails to result in the tax being collected or a payment arrangement being made, a writ of execution will then be issued.

A major improvement of the collection process is the sending of writs of execution by post. We do this since 2004. Service by post is almost completely automated and speeds up the process by six to eight weeks. As a result, it has become a cheaper, less labour-intensive, mass process. The benefits have been considerable: the costs per writ served plummeted by 90% from 14 euros to 1.20 euros, yet we were able to increase the number of writs issued, from a previous total of around 850,000 per year to 1.6 million.

9. SERVICE

A cross-government programme known as the 'Changing Government' action programme, launched in early 2004. The programme is aimed at making government smarter, more effective and more responsive. The Tax and Customs Administration assisted in the Ministry's analysis of tasks, aimed at answering the questions: 'Are we doing the right things?' and 'Are we doing them well?' The Administration's ambition is to think and to work more on a government-wide basis. That ambition extends to its service to taxpayers; the organization aims to cooperate more closely with other government organizations in providing services.

Digital Business Desk

The Digital Business Desk is an Internet-based one-stop information shop, implemented by the Association of Chambers of Commerce and developed from the idea that there should be a one-stop information point for businesses. The site gives answers to questions frequently

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addressed to the Chamber of Commerce and the Tax and Customs Administration. Preparations for joint registration are also completed. When a business registers via the Business Desk, it will receive both the Chamber of Commerce registration number and its VAT number at the same time. Seven ministries are preparing for joining the Business Desk, with a view to expanding the Business Desk to form the one-stop information point for the whole government. Completion is planned for this year.

Improved telephone service

The principle on which the Administration's service is based is that taxpayers should be able to manage their tax affairs without individual help or further explanation. The Internet offers by far the best opportunity to achieve this aim, but not everyone has access to it or is able to use it. This means that service by telephone continues to be at least as important, and the Administration is working on organising this channel more efficiently and improving its quality.

This is a crucial move, in view of our very poor telephone response rate last year. The Minister of Finance was asked questions about our bad performance in this respect in Parliament and the point was made that it should always be easy to contact the Administration by telephone.

Measures will be taken, the intention being to manage telephone communications centrally and route calls through general call centres. Taxpayers only have to call a single number, as the centre will transfer general questions to the tax helpline and case-specific questions to the tax offices. Both types of questions will be answered immediately. Only in the case of specialised questions, a member of staff will ring back with an answer within two days.

10. PERSONNEL

The Tax and Customs Administration has to cut the number of jobs by 3,450 in the period 2004-2008. In working towards this goal, it is important to avoid compulsory redundancies. The freeze on external recruitment is one of the measures that have been taken. Nearly 900 staff left under an early-retirement scheme for employees aged 57 and older. More staff will follow this year. The vacancies that arise as a result of these departures are filled, as far as possible, by adopting an active internal mobility policy.

Government-wide developments

Preparations have been made to establish P-Direkt, a government wide organisation which will be responsible for the personnel and salary records of the various ministries in the near future.

Efforts are also being made across government to harmonise and simplify terms and conditions of employment. A report has been delivered discussing the feasibility and practicalities of introducing uniform arrangements for working hours and working times, study leave, holidays and other kinds of leave.

Finally, the Administration is involved in the development of a government-wide Development and Expertise Centre. The centre will provide Human Resources expertise and will manage and develop HR tools, such as posts and manpower planning, training courses and management consultancy.

Case study

TOPIC 2.1

MANAGEMENT MODEL AND STRATEGY

Nahil Hirsh

National Superintendent

National Superintendence of Tax Administration - SUNAT

(Peru)

CONTENTS: 1. SUNAT's Strategy and its Current Management Model.- 1.1. Strategy adopted in response to the environment.- 1.2 SUNAT's current management model.- 1.3. Management control.- 1.4. The importance of the management model in SUNAT's success.- 2. Knowledge Generation and Management.- 2.1 Conversion of individual knowledge into organizational knowledge.- 2.2 The Impacts of knowledge management.- 2.3 Knowledge spread.- 2.4 Institutional drive to knowledge management.- 3. Relationships with External Agents.- 3.1. SUNAT and its alliance policy with external agents.- 3.2 Difficulties to be solved for achieving optimum relationships.- 3.3 Incentives to foster alliances.- 4. The Service Versus Control Dilemma.- 4.1. The complementation between effective control and service.- 4.2 The Effectiveness of service and control actions.- Conclusions.

SUMMARY

Over the past 25 years, the deepening of the globalization process has gone hand in hand with, among other aspects, an unsuspected technological development, which has positively influenced the organization and management of private and public institutions.

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The classic pyramidal model, the one most deeply-rooted in Latin America, under which authority-based relationships (who rules the roost?) and responsibility-based relationships (who reports to whom?), has been under revision and replaced by a rather more horizontal one, apt to achieve high competitiveness and viability levels.

Under this new way of understanding private or public management, information technology and communications take on particular relevance, in that they allow to permanently follow up and evaluate (in real time) the interaction with our clients (taxpayers), while favoring the generation and management of knowledge as a key factor of competitive edge.

This knowledge management goes far beyond the simple concentration of data and information, because it is based – essentially- on the institutional capacity of taking advantage of perceptions, ideas and intuitions of members in the interaction with the environment. The bottom line of this interaction has been reflected in a fortunate complementation between effective control and service.

Throughout this paper, we precisely intend to approach these presently highly topical issues for the viability of Tax Administrations, but we will do it based on the concrete experience of the National Superintendence of Tax Administration (SUNAT).

In that sense, chapter 1 will deal with the management model that we have been implementing, and the strategy adopted in response to an ever-changing environment. Chapter 2 deals with the issue of knowledge generation and management and its implications in the organization and operating processes of our institution. Chapter 3 refers to the alliances that we have been establishing with the agents that operate in our environment, pointing out some of the difficulties that need resolution in order to achieve better relationships. Finally, in chapter 4 we will socialize our experience regarding this seeming “dilemma” between service and control.

1. SUNAT’S STRATEGY AND ITS CURRENT MANAGEMENT MODEL

The organization and management models of public and private institutions have been under review, within a process markedly influenced by the transformations experienced by the world economy, in particular by those related to the unsuspected development of information and communication technologies.

Some of the new trends regarding organization and management have to do with aspects as varied as¹: a maximum decentralization of operations; encouragement of autonomy and the decision-making capacity at operating levels; measurement of results of management and operating activities, in terms of productivity and yielding; negotiation (not imposition) of organizational objectives or goals with the persons in charge of their execution; planning management as a continuous process of permanent evaluation and adjustment of the plan; development of “Pre-crisis Management”, thanks to the implementation of organizational models based upon early alerts for the decision-making process; removal of pyramidal hierarchies within the organization; promotion of cooperation and teamwork; automatization of administrative processes; among other aspects.

In this context, the SUNAT has adopted a management model within the frame of a medium and long-term strategy, targeted at consolidating and strengthening the viability of our Tax Administration.

1.1.Strategy Adopted in Response to the Environment.

From a macroeconomic perspective, the SUNAT becomes an important link in the country’s development financing. In fact, it collects taxes paid by taxpayers and foreign trade users, and channels them towards the Executive Branch, so that the latter may redistribute them in the field of investment and public expense programs.

As we will see in chapter 3, the SUNAT’s environment comprises - in addition- a series of agents (beneficiaries, suppliers, associates, clients, among others), among which taxpayers and foreign trade operators stand out, with whom the institution interacts. This interaction partly defines the SUNAT’s performance, but at the same time prepares the Institution to give adequate and timely responses, thanks to the generation and management of fostered knowledge.

In this context, the SUNAT has defined its performance, taking into consideration the following aspects:

- a) the Tax Reform and prescriptive amendments, which imply the performance of a series of tasks inside the Institution, which may allow an adequate control of new tax obligations;

¹ See in connection: http://www.sela.org/public_html/aa2k/es/cap/N48/rcap488.htm, June 2005.

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- b) the Fiscal Decentralization Act, a fundamental part in the regionalization and decentralization process, which will require a close coordination of the SUNAT with regional governments;
- c) the exit of import verification companies, in view that the SUNAT has taken over the role that they used to have;
- d) the increase of international taxation practices within the frame of the globalization process;
- e) technological advancements, which modify the modus operandi of companies, such as electronic mail, telecommunications, electronic money, among others;
- f) the diverse international business treaties and agreements in force or to be celebrated;
- g) the high level of informality of our economy.

1.2. SUNAT's Current Management Model.

With this environment in mind, the performance of their vision and mission requires the SUNAT to develop a management model, based upon activity planning and control.

This allows the Institution to align efforts towards one single objective, in order to attain substantial and continuous improvements in performance, and to carry out an evaluation based upon the analysis of results, so as to take all necessary corrective actions.

The foregoing is effectively performed through the Institutional Strategic Plan prepared by the SUNAT for the period 2004-2006, and the 2005 Institutional Operating Plan.

SUNAT's Vision and Mission

Its **vision** is that Peru should become a distinctive symbol of tax collection excellence and a facilitator of taxation and foreign trade compliance, while committing taxpayers and foreign trade users as allies in the development and well-being of the country.

Its **mission** is to steadily increase tax and customs collection, by fighting evasion and smuggling honestly and fairly, through the effective generation of risk and quality services for taxpayers and foreign trade users, as well as through the encouragement of tax obligation compliance, in order to contribute to the economic and social well-being of Peruvians

Strategic planning

The institution's strategic planning is carried out once a year, in a process that involves the whole organization. For such purpose, a dialogue platform is created in which Top Directors set the priorities that will guide the proposals of strategies, objectives and projects of all areas that will allow to materialize them.

Institutional Strategic Plan (PEI, in the Spanish acronym)

The current Strategic Plan defines for a period of three years (2004-2006) the objectives, goals, indicators and strategies to be followed, within the frame of the Multi-annual Sector Strategic Plans (PESEM) approved by the Ministry of Economy and Finance.

Each organizational unit evaluates the opportunities and threats of the environment, and considers its own strengths and weaknesses. By integrating the diverse points of view, a complete organizational scenario is opened, and the main challenges remain clear, which have to be faced by the Institution.

The information coming from the environment reaches the organizational units through diverse means that range from newspapers to the Internet. Relevant events are considered and discussed at meetings, to evaluate possible impacts on their operating processes.

Operating Planning

Once the strategic objectives are established, the operating areas must proceed to carry out the actions to achieve them. Based on the Operating Plan, they decide upon the best distribution of allocated resources, and adjust processes accordingly.

Institutional Operating Plan (POI, in Spanish)

The Operating Plan is a short-term institutional management instrument that defines the activities to be performed in one-year periods. This Plan reflects both the actions of the operating areas and the projects of prescriptive areas, and the institutional investment projects within the frame of the National System of Public Investment (SNIP, in Spanish).

To formulate the Operating Plan, they hold coordination meetings, national meetings by process and visits to collect information, among other activities, while requesting the participation of all the Institution's areas, in order to obtain a consensual Operating Plan, which will be finally disclosed to the national environment.

1.3. Management Control.

SUNAT's Management Control process starts with the determination of the indicators, goals and the formulation of the projects contained in the Strategic Plan and the Institutional Operating Plan. It contemplates two steps: a) Evaluation, and b) Monitoring.

a) Evaluation

In this step, the results obtained during the evaluated period are compared against expected results. The pertaining adjustments are performed accordingly.

The areas involved prepare a monthly Report on Progress about any particular management indicator, which includes the activities performed and the problems presented. This report is sent to the Planning, Management Control and Agreements Management (GPCGyC, *in the Spanish acronym*), which prepares a quarterly report and sends it to the Top Directors, as well as to the Intendances involved.

Quarterly reports allow to present proposals that are targeted at improving the diverse activities carried out in the Planning process. Also, by means of visits, messages and the use of virtual means, the proposals of the departments and the best practices are collected from the national environment, aimed at spreading them and applying them to the whole Institution.

b) Monitoring

It consists in the follow up of control points of institutional activities and projects, in agreement with the Operating Plan and the Budget.

The Coordinator of each project, together with their Work Team, prepares a monthly Report on the Progress of the activities performed.

Institutional Project Cycle

In the formulation of Institutional Projects, the objectives, grounds, scope, benefits and costs of the project are defined, together with the pertaining indicators.

Each project team is composed of a project executive, a coordinator, the participants of the areas involved in the development of the project, and a representative of the GPCGyC. In addition, the user area will also take part.

The GPCGyC conducts a monthly evaluation of the status of each project in the Operating Plan, and submits it to the Associate National Superintendences (Internal Taxes and Customs Taxes), as well as to each one of the National Intendances involved.

1.4. The Importance of the Management Model in SUNAT's Success.

The success of the management model implemented by the SUNAT has been evidenced in the national and international recognition of our Institution. Below, we mention three successful experiences, linked to an adequate management model.

a) Electronic Services

Over the last years, the SUNAT has prioritized the use of technology as part of the strategy to comply with its objectives. This trend is part of what is worldly known as Electronic Government. Let us see some of the results achieved by us.

Access to the unified Institutional Portal (www.sunat.gob.pe) is under a process of consolidation, and has a majority preference among taxpayers and foreign trade users. A proof thereof is the monthly average of over 31 million visualized pages, and nearly 1,700,000 visits.

As for electronic services associated with internal taxes, the first semester of this year recorded nearly 660,000 SOL Keys (SUNAT's On-line Operations) delivered to taxpayers, something that will allow to add dynamism to the use of implemented electronic solutions.

Electronic payment of taxes in the first six-month term of this year has shown an important dynamism, recording average monthly payments for over US\$7.2 million². It should also be pointed out that during the presentation of the DAOT (Annual Tax Return of Operations with Third Parties), due in the first quarter, nearly 76% of tax returns were submitted through the Internet.

² Exchange rate used US\$ 1 = 3.25 *New Soles*

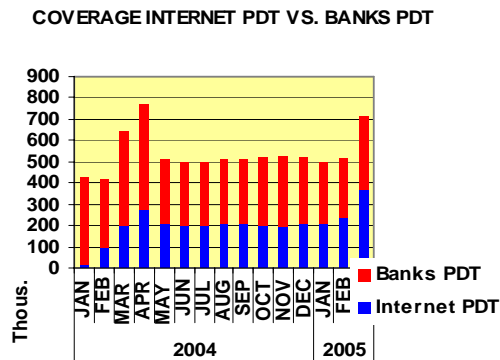
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As regards electronic services for foreign trade users and operators, the first quarter records a growth in comparison with the same period last year. Electronic payment transactions were up by over 30%, and the *Teledespacho* Web went up four-fold, compared to the same period last year, reaching nearly 47,000 transactions in that period.

Telematic Presentation

Started in 1999, the implementation of electronic solutions for taxpayers' tax returns is currently focused on the advancement of its last component, the presentation through the Internet, which helps comply with the strategic objective of removing paperwork for submitting tax returns and payments.

As it can be observed in the attached graph, ever since the implementation of the Internet Tax Return by early 2004, nearly 50% of the Telematic Tax Return Programs (PDT, *in Spanish*) has been submitted through the Internet. This coverage exceeds 60% in the case of informative PDTs submitted.



b) Neuronal networks

Since July 2004, the SUNAT has been using a neuronal-type intelligent algorithm for detecting import frauds³. With this new solution, the SUNAT achieves a leading position in tax and customs administration.

The Neuronal Network is fed by the information coming from a historical data base (National Data Base – BDN (*in Spanish*) that registers information on performed imports (importer, type of imported merchandise, value of merchandise, place of origin, results of previous evaluations, among other data).

The network is adaptive, that is, once it is trained initially with the BDN's information, it self-organizes the received information to perform its objective, whenever required. Also, it is dynamic, because the use of it allows to constantly learn about the information that is being processed at the same time.

³ The system applies to the Final Import System, which accounts for 85% of Peru's total imports.

To this date, the SUNAT has implemented this model at the Maritime Customs of Callao, and intends to do so at the Air Customs of Callao, at Tacna Customs (in the country's southern boundary), and also for the supervision of internal tax and returns. So far, neuronal networks have proven a highly efficient tool, achieving a certainty of up to 45% regarding fraud detection.

c) Advanced payment system of the IGV (General Tax on Sales)

Given the high evasion of the General Tax on Sales (IGV, in Spanish), the systems of withholding, collection and withdrawal have been implemented since 2002, with the aim of anticipating collection of such tax.

These systems have allowed a significant growth in IGV collection, and indirectly in the Income Tax, because they encouraged income tax return and payment of taxpayers who usually did not pay or did so partially. Furthermore, they have provided timely and accurate information regarding sales and purchases of a great number of economic agents, which has allowed a better supervision of their suppliers and clients.

Withholding System: In force since June 2002. Through this system, big buyers withhold 6% of payments of over 100,000 suppliers levied with the IGV.

Collection System: applicable to liquid oil-derived fuel. In force since October 2002. Collection Agents collect a payment from the price invoiced to their customers. Also applicable to the imports of goods.

Withdrawal System: The buyer must withdraw a sales price to be deposited in an account under the name of the supplier, who will use the funds to pay the pertaining IGV.

As seen from the attached graph, in 2004 collection from these systems accounted to S/. 3,082 million (US\$ 948 million), a figure that equals 19% of the IGV collection. Also, 157,000 new taxpayers were registered thanks to these systems.

ADVANCED PAYMENT SYSTEM OF IGV
(In Thousand Nuevos Soles)

	2002	2003	2004	2005
	TRIM I			
I. F Withholdings	622	1,424	1,422	342
II. I Withdrawals	68	498	1,228	516
III. F Collections	8	105	432	131
TOTAL	698	2,027	3,082	988

Source: SUNAT / Banco de la Nación

2. KNOWLEDGE GENERATION AND MANAGEMENT

The viability of an organization (that is, its successful permanence in the future) in complex and changing environments depends upon the way in which it obtains and processes the information coming into its environment,

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the capacity of the members to generate knowledge therefrom, and the intelligence applied both to the opportunity and the quality of responses.

In that sense, the SUNAT encourages diverse attitudes among its members, targeted at an adequate knowledge management. The capacity to work as a team and to learn from experience, the development of creativity, the generation of an organizational memory, the development of mechanisms to learn from mistakes, the establishment of mechanisms to obtain external knowledge, and to transmit and spread knowledge, among others.

An adequate knowledge management will only be attained if the Institution gets its members to convert their knowledge into a useful asset for the institution. In other words, it implies the passage from what some specialists call individual tacit knowledge (that integrating the individual learning of each individual), to an organizational explicit knowledge (which can be structured, stored and spread).

2.1. The Conversion of Individual Knowledge into Organizational Knowledge.

With a view to facilitating the understanding of the flows of individual information and knowledge generated at the SUNAT, and its conversion into organizational knowledge, we will take into account the fundamental processes that can be distinguished in the functioning of our Institution: Primary processes (associated with operating activities), cohesion processes (associated with the provision of resources and the control thereof), intelligence processes (associated with the study of the environment and its perspectives), and management processes.

2.1.1. Primary processes

In the operating processes, the dynamics of information and knowledge is more pronounced and transcendental, because through them the organization assimilates and transforms the needs and requirements of the environment.

SUNAT Macro processes

The 26 operating processes are not in isolation; they interact with one another through perfectly defined entries and exits, which maintain their consistency either from a global point of view (Level 0), or from a specific point of view (detail Level of processes).

With a view to having a global vision of all the activities and identifying how each operating process interrelates with the others, the SUNAT has prepared the so-called Mapping of SUNAT Macro processes. This methodology identifies 26 operating processes: 12 associated with internal taxes and 14 associated with Customs.

Stemming from such processes, from a knowledge perspective, we will present below some of the experiences that evidence how individual knowledge becomes organizational knowledge.

- a) The use of automatized systems in all its processes: Integrated System of Customs Management (SIGAD, in Spanish), Integrated System of Tax Collection and Administration (RSIRAT, in Spanish), Electronic Control of Manifests, Payment Declaration, among others, which are permanently updated thanks to the contributions and needs of users.

An example of the use of systems expressly designed to obtain knowledge is given by tax audits: auditors put down their labor experience in reports, which are then retrieved and classified automatically in the Supervision Control System, so that they can be consulted by other auditors.

The preparation of the PDT also contributes with a great amount of technical knowledge, and allows to guide step by step the preparation of diverse tax returns of taxpayers. With this resource, doubts and errors are minimized, with resulting benefits for taxpayers.

A similar situation takes place with the customs *Teledespacho*. In this case, the Customs Agent transmits his/her customs returns electronically, so that a system evaluates the consistency of the information. If any observations are found, the system sends them back and states the reason. If conforming, it proceeds to number them, with the possibility of subsequently performing the electronic payment.

- b) The use of information exploitation and business intelligence tools is one of the most interesting ways for obtaining knowledge, available for our Institution. These tools can be used as complex models are structured, which involve high levels of business knowledge.

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For instance, cross-information processes, findings-maximization probability models for customs fraud determination, neuronal network modeling, among others, which allow to identify and predict the conduct of taxpayers and trade operators, as we saw in the preceding chapter.

The “Compelling Circle”

An actual example is the discussion forum of compelling collection issues called “Compelling Circle”, in which 96 SUNAT’s workers participate in the national environment, and which ranked first in the **Creativity and Innovation Contest**, conducted by the Institution in 2003.

- c) Operating areas generate a great amount of information and knowledge that stems from the need to give immediate and actual responses to the environment. For that purpose, a series of informal joint-response mechanisms has been organized, with the aim of sharing successful experiences or addressing doubts more rapidly than in formal mechanisms.
- d) The specialized Audit Manuals gather the best practices and experiences, in order to uniform audit procedures and, in addition, provide technical information and knowledge regarding the economic sectors to be audited. These manuals are updated from time to time, and get feedback from the generated experience.

2.1.2. Cohesion processes

Cohesion processes regulate the performance of operating processes, to ensure an effective use of resources and optimum performance, within the frame of strategic planning.

The Map of institutional Macro-Processes, mentioned before above, gathers five processes associated with cohesion. In this regard, the main experiences related to the adequate provision of knowledge are exposed.

- a) The institutional effectiveness generates requirements that must be met by the cohesion processes. In this environment, what counts is to address a series of doubts and timely access to the information. For such purpose, proceedings need to be established with a high content of information and knowledge, so as to sort out the problem, address needs and distribute it.

To give an example, the thematic National Meetings (collection, supervision, claims, services and customs) that from time to time summon chiefs and specialists at different operating areas of the SUNAT in the national environment, are intended to sort out everyday operating problems, and - in some cases- to address them through consensual agreements, which will later be applied nationally.

It is also worth mentioning that most of the proceedings of the operating area are analyzed and later standardized, by means of circular letters that are approved by the Associate National Superintendence. The circular letters serve the purposes of unifying criteria, and also distribute instructive manuals for system management.

- b) The control over the operating activity also generates knowledge mechanisms that impact on such activity. An example are the visits that the staff at the prescriptive areas perform to the different departments, with a view to sorting out problems and validating procedures and performance, in order to improve them.
- c) In addition, cohesion must propose and carry out the projects that improve or transform operating processes. In fact, as we saw in the preceding chapter, management of institutional projects is a permanent mechanism of knowledge provision and socialization.

2.1.3. Intelligence processes

Intelligence processes are focused on the permanent study of changes that take place in the environment, and on the prospective study of future scenarios, so that proposals may be generated to change the way tasks are performed, and to encourage the creation of new structures, and the development of people's skills and knowledge.

The interrelation of intelligence processes with cohesion and management processes generate information and knowledge flows, namely:

- a) in the permanent evaluation of the processes and services performed by the Institution with foreign trade unions

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regarding the customs issue (Customs Advisory Board), and with the corporate sector on the taxation issue (Advisory Group of Internal Taxes);

- b) in the detailed study of production and distribution chains of the country's diverse economic sectors, and their relationship with informal activities. For example, this led to the establishment of the advanced payment Systems of the IGV, which were mentioned in the preceding chapter;
- c) in the use of a Tax-Customs Datawarehouse (National Data Base), which contains information on companies and citizens, which is relevant for the institution's functions.

2.1.4. Management processes

Management processes are targeted at establishing institutional objectives, making decisions and, in general, institutional management. An organizational flow of information and knowledge is also generated at this level, as we discussed in the preceding chapter.

2.2. Knowledge Management-Derived Impacts.

At the SUNAT, the first implication of knowledge management is associated with the efficient execution of control and service processes, as we will deal with in chapter 4.

On the one side, control actions are programmed taking into account the information obtained from taxpayer's returns, the results of documentary and physical revisions, as well as from integral audits registered in the system. On the other side, service actions are assessed from the results registered in the systems, based upon indicators of both time and collection, and the users' opinion.

As a consequence, given the information that exists nowadays in the hands of the Customs specialist and the tax Auditor, this work position is oriented to processes and not to specialized functions. Presently, a new customs dispatch process is being worked on,

together with the redesign of an Integrated System of Customs Management (SIGAD, in Spanish), under a Single Dispatch, Virtual Customs and Telework approach.

Another implication is that the Institution has formalized the mechanisms of knowledge provision and spread, through automatized mechanisms of everyday activity, such as paperwork, the registration of incidence and customs intelligence, etc. Also, there is a complex structure of documentary management, of processes, indicators and results in the Quality Systems of customs processes, which have ISO 9001, 2000 version quality certification.

Another relevant aspect is that the priority set upon knowledge management schemes requires that the institutional area specialized in information technology issues (National Intendance of Information Technology Systems) should give priority to those projects supporting it, namely: data centralization, development of integrated information systems, integration with public entities, implantation of the integral system of communications, development of model pilots of learning management, development of artificial intelligence-based systems, among others.

Besides, institutional projects, which used to prioritized technological aspects, are now oriented to processes and to the intelligent treatment of information, thus pursuing the addition of adaptive and action capacity to the organization.

2.3. Spreading Knowledge.

The process of spreading knowledge inside the Institution takes on diverse forms, and sees to it that such information is sent back to its members for better management and later feedback. The following examples may be cited, in addition to those already mentioned above:

- Dissemination, through the Intranet and electronic mail, of reports, circular letters and other documents that have sorted out doubts regarding the application of rules.
- The use of Public Folders (electronic mail), in which information is consolidated, related to issues of interest for operating and prescriptive areas.

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- In the case of customs supervision, the knowledge generated under this process – including casuistry, reports, circular letters and other related documents – is spread through a documentation repository called IFGRA (Supervision and Management Intendance of Customs Collection) *Virtual Library*.
- The System of Customs Intelligence makes it possible to register and consult non-structured (qualitative) information from the investigations conducted on foreign trade operators.
- The implementation of a training virtual platform, SUNAT Web Campus (<http://srveducacion.sunat.gob.pe/>), whereby distance training courses are developed and spread through self-learning tutorial modules, by the Institute of Tax and Customs Administration (IATA, in Spanish).

2.4. Institutional Drive to Knowledge Management.

An important aspect for knowledge generation and management is the adequate motivation of the staff, either to comply with institutional goals or to value the possibilities offered by the intelligent use of information. This process has been interiorized at the SUNAT, and as result, we are witnessing today a pronounced increase in the generation of proposals for improvement and innovation, which are materialized in projects involving the intensive use of information and the requirements of complex processes.

Creativity and innovation Contest

The SUNAT has a promotion and reward mechanism called *Creativity and Innovation Contest*, which fosters workers' creativity and innovation capacity, either individually or as a team, as a contribution to the Institution's improvement and development. Two categories have been established: Good practices and New Projects. Prizes include diplomas, memento plates, advertised honorable mentions, gifts and the internal publication of works.

3. RELATIONSHIPS WITH EXTERNAL AGENTS

The multiple events that take place in SUNAT's environment are a complexity that we must face. This has led us to assimilate selectively those aspects of the environment that influence the compliance of our mission, without diminishing our capacity to react to external changes.

Within that environment, national, international, public and private entities or organizations operate, with which the SUNAT, with a view to strengthening its management, establishes diverse types of relationships, which range from informal to mandatory, including those for mutual benefit.

3.1. The SUNAT and its Alliance Policy With External Agents.

Within the frame of the alliance policy with external agents, the SUNAT takes into account the following basic criteria:

- Greater State efficiency through the integration and simplification of citizens' services.
- The respect for tax reserves.
- The magnitude and projection in time of inter-institutional cooperation.
- The control magnitude, effectiveness and efficiency of tax and customs compliance.
- Improved taxpayer services, facilitation of foreign trade and the creation of tax awareness.
- The contribution to SUNAT's staff development, targeted at a better labor and institutional performance.
- The facilitation of supervision power to require information.

In interacting with the environment, we also adopt strategies in several environments:

In the direct compilation of information about people and companies (strategies with beneficiaries)

It consists in gathering information regarding taxpayers and foreign trade users' operations, with a view to validating the determination of their tax and customs obligations. For such purpose, products such as the PDT and the customs *Teledespacho* have been created, which have already been discussed in the preceding chapters.

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In the compilation of indirect relevant information for service and control processes (strategies with suppliers)

It consists in obtaining relevant information from taxpayers and foreign trade operators that allows us to identify service needs or new modalities of tax evasion and fraud. For such purpose, agreements have been established with diverse institutions.

In the generation of external processes to support control and collection (strategies with associates)

We started out by conducting a detailed study on the production and distribution chains of the country's diverse economic sectors, and their relationship with informal and tax evasion activities. Relationships and mandatory alliances were established based thereupon. They are the so-called advanced payment Systems of the IGB, which were dealt with in chapter 1.

In the strengthening of external processes to support control and collection (strategies with associates)

For example, the cases of the National Police and the Armed Forces, which are obliged to give support to control tasks.

In the strengthening of coordination bonds with users (strategies with clients)

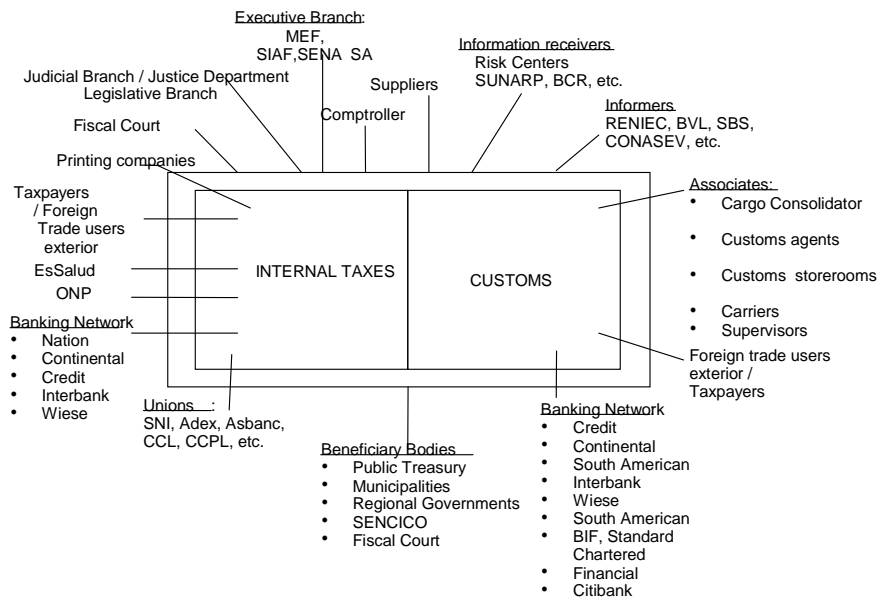
This is the case of the First Foreign Trade Event (performed in November 2004), which - as it will be seen later- allowed the constitution of the Advisory Board on Customs Issues, composed of foreign trade-related unions.

In the way services are distributed (strategies for impact on the environment)

In this environment, information and knowledge are transferred through different means. For example, training for foreign trade-related unions and operators; Schools of Professionals, such as the School of Accountants of Lima (CCL, in Spanish). Approaching the CCL is important because of the direct connection between their professional work and SUNAT's tasks.

In this context, since 2002, the SUNAT has established inter-institutional cooperation agreements – mainly regarding information use and exchange- with 29 institutions, among which are:

- The Exporters' Association (ADEX)* ,
- The Chamber of Commerce of Lima (CCL),
- The Society of Foreign Trade (COMEXPERU),
- The National Institute of Statistics and Information Technology (INEI),
- The National Institute of Competition Advocacy and Intellectual Property Protection (INDECOPI),
- The Ministry of Labor,
- The Ministry of Transportation and Communications,
- The Justice Department,
- The Special Project of National Transportation Infrastructure (PROVIAS Nacional),
- The Financial Intelligence Unit of Peru,
- The Fiscal Court,
- The Superintendence of Banks and Insurance (SBS),
- The National Registry of Civil Identification and Status (RENIEC)



* Translator's Note: All acronyms in this list are in Spanish.

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Below, we mention some of our main relationships with external agents:

Relations with the banks' network

The SUNAT maintains a long-dated agreement of constant revision and improvement with the country's banking entities, with which it interacts directly in the design and implementation of new tax payment services.

Relations with Internet booths

With a view to facilitating tax compliance through the Internet, the SUNAT has created the "Directory of Internet Booths", in which booth owners are registered in exchange of a permanent training on tax manual issues, and talks regarding the latest technological solutions developed by the SUNAT. This strategic alliance allows us to comply with institutional objectives, availing ourselves of this private initiative of remarkable development in the country.

The registration module for the "Directory of Internet Booths" has been designed to provide information to two target groups:

- Information for Taxpayers: Contains an account of Internet booths trained by the SUNAT, and location information (by department/province/district), working hours, number of computers, telephone, services provided, among other aspects.
- Information for Internet Booths: Contains information about registration requirements for the SUNAT's Directory, interest links, training talks material, suggestion box, among other issues.

Currently, there are 492 Internet Public Booths in the national ambit, which are published in the cited Directory. The relationship with these external agents has made for better services for taxpayers and/or citizens, lower costs for the SUNAT (reduction in the payment of bank commissions), a greater demand from users of Internet public booths, among other shared benefits.

Relationships with the Ministry of Economy and Finance (MEF)

The relationship between the SUNAT and the General Office of Public Revenue Policy of the MEF is obviously an important one. Whenever the SUNAT has any proposal for changes in high-range tax rules, these are channeled through said Office. If the change is in connection with an Act, the proposal is sent to the Ministers' Council, so that the President of the Republic presents the pertaining Bill before the Congress of the Republic.

Debates within the specialized Congress' commissions (and later in full attendance) actually imply the possibility of introducing undesired changes to the original proposal remitted by the Executive Branch. As a recent example, we may cite the inclusion of a letter into a rule about withdrawals in the transportation sector, which entails the possibility of establishing a minimum cost for the determination of freight, an issue that clashes against the constitutional principle of freedom of contracts. In order to avoid these results, the SUNAT must coordinate closely with the cited General Office at the MEF.

Also worth mentioning are the monthly meetings of the Cash Committee, celebrated by the Economy Vice-Ministry, in which the SUNAT takes part through the Management of Tax Studies (GET, *in Spanish*). At such meetings, a monthly follow up is performed of the evolution of the country's revenues and expenses. The GET provides monthly the Central Government's projections of tax revenues, which are used to frame the budget programming of public expenses for the following month. Even though the Central Bank of Reserves takes part in the projection figures, in practice the GET's projections prevail, which goes to show not only the best tax information in the hands of the SUNAT, but also the close knowledge regarding different policy and tax administration factors that affect the performance of tax payments.

Relationship with the Congress of the Republic

The SUNAT has appointed an officer with physical presence at Congress, whose main function is to follow up the different projects submitted to the Congress, which are associated with tax issues. Such coordinator encourages the approval of projects submitted by the SUNAT, or else sees to it that projects having negative tax implications are better analyzed or that their undesired external impacts are diminished. If this is not achieved, at least the SUNAT is already aware of what will happen and can allow for it accordingly.

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Relationships with the Fiscal Court

It is the SUNAT'S function to unify the application criteria of Tax Regulations, to avoid duplicity of interpretations inside the Administration itself. Because the Fiscal Court is the last administrative instance, it is necessary to coordinate with this body so as to consolidate SUNAT's position.

Among the different types of coordination with the Fiscal Court, we may point out the one referred to the unification of criteria. SUNAT's administrative areas act taking into account the Institution's position through the guidelines of the Legal National Intendance, and the resolutions of mandatory performance laid down by the Fiscal Court. However, there are cases in which reiterated case law exists for a specific issue, which although not being mandatory, it is contrary to the SUNAT's position. In that case, if the Institutional position is maintained, actions are coordinated with the Fiscal Court so that the latter analyzes the issue again and issues some case law of mandatory performance.

Relationships with foreign trade-related unions

In November 2004, within the frame of the consolidation of the SUNAT-CUSTOMS merger, our institution organized the First Foreign Trade Event, in which the main foreign trade-associated unions took part: The National Society of Industries, the Exporters' Association, the Society of Foreign Trade of Peru, the National Users' Council of the International Physical Distribution System of Merchandise, the Chamber of Commerce of Lima, the Customs Agents' Association of Peru. This event was mainly intended to articulate the demand from foreign-trade operators with the service offer built by the SUNAT.

This was the first joint meeting of the public and the private sector, aimed at providing a solution to the foreign trade complexity. As a result of the event, some conclusions were outlined around three issues: a) The facilitation of foreign trade; b) An effective and efficient control, and c) Export promotional systems. To carry out these agreements, the creation of an Advisory Board on Customs Issues was formalized, which continues to work today, and constitutes the main platform of coordination and cooperation between the SUNAT and the different foreign-trade unions.

Relationships with the educational sector

The SUNAT has undertaken to establish alliances with the Educational Sector, because this should allow to develop tax awareness among the country's younger population. In that sense, an Agreement with the Ministry of Education is under a process of formalization, targeted at incorporating tax-related contents into the syllabus program of Initial, Primary and Secondary Education.

These are only some of the examples of alliances and relationships that the SUNAT maintains with the agents that operate in its environment. However, despite this effort, we consider that there remains yet a stronger coordination to be achieved with key entities for the creation of tax awareness. Like for example:

- With education-associated private institutions, such as the Catholic Schools Consortium, or the Association of Secular Schools Promoters, in the light of the considerable number of Educational Centers existing in the city of Lima, which account for more than twice as much the educational offer of the Ministry of Education.
- With Publishing Companies, in charge of publishing school texts, with the aim of providing a better and larger treatment of tax issues in the fields of Social Sciences.
- With Regional Governments and Municipalities, with a view to getting their support for the development of activities for taxpayer supervision.

Finally, we should mention that the SUNAT has also formalized international agreements in connection with cooperation and mutual assistance, as well as with the exchange of information and the fight against illegal drug traffic. The countries and bodies with which this type of agreements have been signed are: Argentina, Bolivia, Chile, Mexico, Ecuador, the United States, Panama, Uruguay and Venezuela.

3.2. Difficulties to Be Overcome in Order to Achieve Optimum Relationships.

One of the main difficulties to carry out alliances with external agents is the technical impossibility of crossing large-scale information. This particularly happens with public sector entities, which for quite a long

TOPIC 2.1 (Peru)

time have been using different criteria for the registration of the information. The concept of “single key” does not exist. To overcome this, the SUNAT is proposing that all State institutions should use the SUNAT’ Tax Payer Identification (RUC, *in Spanish*) as a mandatory field when providing information on the persons (juridical persons) under their administration.

Another difficulty relates to the low use of technologies by some governmental entities. For example, some municipal governments have only recently started to computerize their information, which hinders the exchange of it.

In some cases, the legal impediments prevent from obtaining information in mass, despite the signature of an agreement. For example, the Technical Cooperation and Information Exchange Agreement signed with the National Superintendence of Public Records (SUNARP, *in Spanish*) cannot be applied, because the latter cannot transfer gratuitously the information about real estate and car systems, because it is not legally entitled to do so.

3.3. Incentives to Foster Alliances.

In this constant effort to encourage the celebration and maintenance of alliances with external agents, the SUNAT has been trying to grant some incentives that contribute to such aim.

So, for example, the SUNAT signs agreements whereby it transfers technological knowledge to institutions, mainly public ones, which are in possession of valuable information, but which have not yet reached enough technological development so as to share it adequately. Such is the case of the interconnections with the National Agriculture Health Service and the Ministry of Production.

Moreover, the possibility to adjudicate seized merchandise to institutions with which we have alliances, gives us the possibility to facilitate them the necessary means to provide us with support, which in turn brings about better joint work.

Lastly, the training provided by the SUNAT becomes the main stimulus for maintaining strategic alliances. In addition, the dialogue and the institutional openness regarding external agents’ proposals is a key element for the performance of said objective.

However, in some cases fiscal authority has been made to prevail over that of other external agents. This is the case, for instance, with the Agreement entered into with the RENIEC, because the Tax Code⁴ had to be modified in order that this entity could deliver to the SUNAT the information pertaining to the Natural Persons Identification Registry.

4. THE SERVICE VERSUS CONTROL “DILEMMA”

In the early 90's, taxpayer control and supervision were regarded as key milestones by most Tax Administrations in the region, which had undergone restructuring processes. The SUNAT was not an exception to this trend. Its organizational chart was composed of operating and prescriptive areas of supervision and collection, which reflected in an institutional culture specially devoted to taxpayer control, and not to providing taxpayers with a good service. We believe that it was at this point that the apparent dilemma between service and control started.

Later, by the end of such decade and the beginning of the current millennium, Tax Administrations – to a lesser or greater extent - understood that they should legitimate their function before the society, that the risk was not enough to motivate voluntary tax compliance, and that as public sector leading institutions they had to offer outstanding-level services, without neglecting tax control.

4.1. The Complementation Between Effective Control and Service.

In this context, the SUNAT's organizational structure was modified in 2001, creating the National Intendance of Taxpayers' Services (INSC, *in Spanish*), together with the National Intendance of Tax Compliance (INCT, *in Spanish*). Currently, the former is responsible for designing and administering the programs, procedures and actions in connection with the services for taxpayers, taxable persons and customs' services users; while the latter is in charge of designing the programs, procedures and actions in connection with the control of tax obligations compliance.

⁴ Dated 12/28/98, the Act N° 27038 was issued, which modified the Legislative Decree N° 816 – Fiscal Code and Related Regulations. Section 63° of said regulation substitutes the Final Eighth Provision of the Fiscal Code, and entitles the SUNAT to request information from any Public Entity.

TOPIC 2.1 (Peru)

Also, in addition to the existing areas of Supervision and Collection, each operating dependence (de-concentrated branches) have Taxpayers' Services departments, created to address taxpayers' consultations and errands gratuitously.

The creation of taxpayers' services areas has brought about the need to assimilate the importance of providing a good service for achieving an efficient control of tax obligations. In fact, allocating similar importance both to service and control areas may generate opposite positions, upon considering that they address different objectives. However, this apparent dilemma can be minimized as it is assimilated that an efficient control is that control that provides enough information and assistance, supported by information technologies that facilitate tax and customs compliance. Some key service and control strategies have been established for the performance of a common objective, both regarding internal taxes and the customs business.

Internal taxes

According to the SUNAT's Organization and Function Regulations⁵, both the National Intendance of Tax Compliance and the National Intendance of Taxpayer's Services may require the preparation or amendment of legal rules.

The Tax Regulation Management (GNT, *in Spanish*) of the National Legal Intendance (INJ, *in Spanish*), an area responsible for formulating regulation bills in connection with internal taxes, receives the prescriptive requirements deriving from each of these Intendances.

For the performance of its tasks, the GNT must firstly analyze the set of prescriptive rules to identify their scope, whether as to aspects of control, services or any others. Then, it requests the opinion of the Intendances involved⁶.

In this context, we should mention two specific examples of how the apparent dilemmas between control and services were sorted out, with the help of planning and dialogue.

⁵ Enacted by the Supreme Decree N° 115-2002-PCM, published 10.28.2002.

⁶ Which may be, in addition to those previously mentioned, among others: The National Intendance of Information Technology Systems (INSI, *in Spanish*) and the Intendance of Fiscal Studies and Planning (INETYF, *in Spanish*).

Case 1:

Currently, the compliance of substantial tax obligations is performed at different places, depending on whether they relate to Main Taxpayers (*Pricos*) or Medium and Small-sized Taxpayers (*Mepecos*). The former ones do so at the offices of the SUNAT, while the latter ones do it at the agencies of the banking network. With the aim of ensuring a better control over *Mepecos*, the INCT has proposed that the latter ones should also perform their tax obligations at the offices of the SUNAT.

Because it was noted the insufficient capacity of the areas providing the service, both in terms of infrastructure and the number of persons to assist the demand from such taxpayers, the proposal was restricted to *Mepecos* whose debts were involved in compelling collection procedures. However, this alternative could create greater confusion and increase costs of tax compliance, because for debts others than the latter ones, taxpayers would have to go to banking dependences.

Therefore, after the pertaining coordination, it was chosen to maintain differentiated places of payment. In other words, control surrendered to service.

Case 2:

At the proposal of the INCT, a term was given for tax debtors that were not found⁷, so that they revert such condition. Given the high number of individuals under such condition, the services areas could not guarantee the assistance. The solution was possible by means of the amendment of the regulation bill, targeted at allocating tax debtors to different groups, and to assist them gradually.

In this case, the areas of control and services reconciled their interests.

So, even though operating limitations (human resources, infrastructure, etc.) have led us to an occasional restatement of some control and service actions to follow, it is important to point out that SUNAT's work has not been affected in terms of results, as it is evidenced in our institution's management indicators and collection statistics.

⁷ Taxpayers whose fiscal domicile has not been verified.

TOPIC 2.1 (Peru)

Customs Business

As for the customs business, the response to the apparent “dilemma” between service and control is even more encouraging, and has been therefore subject to the analysis of foreign trade-related institutions. This can be realized in the Master Plan of Foreign Trade Facilitation, within the National Export Strategic Plan 2003-2013⁸.

Such document exposed the concern that after the merger with Customs, SUNAT’s control and supervision culture could affect the facilitator role of the former. It was thought that given that SUNAT’s revenues derived directly from the collected amounts, this could imply a higher control of customs obligations at the expense of facilitation.

This perception has been overcome ever since the performance of the First Foreign Trade Event, referred to in the preceding chapter, whose agreements have allowed bringing together the control and facilitation of foreign trade.

4.2. Effectiveness of Service and Control Actions.

The SUNAT has been determinedly betting on a new paradigm that links control and service as one single achievable objective. For such purpose, we are resorting to the intensive use of information and communication technologies, to the extent that they allow us to exercise an effective and efficient control, without neglecting the good service for tax compliance and foreign trade facilitation.

In that sense, the strategy of the SUNAT’s Electronic Government allows these two concepts to coexist. An example of the possibility of having better control actions without neglecting foreign trade facilitation is the development of the Neuronal Networks project in foreign trade, as we dealt with in chapter 1 of this paper.

In addition, among the 74 Institutional Operating Projects of 2005 contemplated in the Institutional Strategic Plan, the projects of the service areas consisting in the modernization of the RUC and the streamlining of the PDT, are targeted at not only facilitating service, but also at ensuring quality and maintenance of the information recorded in SUNAT’s systems. Also, at ensuring the adequate logistic and

⁸ See in connection <http://www.mincetur.gob.pe/comercio/OTROS/penx/index.htm>

information technology support for the tasks of tax and customs audit and control, through the strengthening of taxpayer assistance points and the improvement of the internal processes of the new Tax Consultation Center.

CONCLUSIONS

Throughout this paper, we have insisted that the viability of any Tax Administration must rely on the importance given to the implementation of an institutional strategy and management that are able to respond timely and adequately to the requirements of its environment.

The way such environment is faced, the bonds and alliances established with the agents operating in it, with the support of an adequate technology, are fundamental to achieve positive results in the generation and management of knowledge, as well as in the symbiosis between service and control.

Nevertheless, besides the changes operated in management models and the latest innovation in information and communication technologies, the human resource remains the key element in such processes. Our Institution keeps betting on it.

Case study

TOPIC 2.2

MANAGEMENT, ORGANIZATION, STRUCTURE AND RESOURCES

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SUMMARY

The essential function of Tax Administrations is the collection of taxes for the State, the resources targeted at assisting basic needs of society, such as education, health and basic infrastructure. In this sense, Tax Administrations must ensure an efficient and effective task.

Common difficulties.- Some of the common difficulties and/or needs of Tax Administrations are the following:

- the lack of reliability and coverage of taxpayers' Roll, whose importance is similar to that of a customers base in a business company; the roll must provide all the updated and necessary information to the Tax Administration for the adequate planning and performance of its activities;
- the lack of timeliness in the submittal of Tax Returns and payment of taxpayers' obligations, as well as the adoption of pertaining measures;
- inefficient selection of examination cases with high levels of discretionality;
- limited use of technological resources in the different processes faced by a tax administration;
- a considerable number of ther difficulties, such as the lack of an administrative career, wrongly defined regulations and the lack of autonomy for managing financial resources.

Reform of the Bolivian Tax Administration.- The Bolivian Tax Reform is a processes that began by the end of 2001 with the enactment of the Act 2166, which created the National Tax Service as a self-governed entity with its own patrimony and self-management. In general, the Reform may be rendered successful, in view that it has allowed a considerable steady increase in tax revenues, and a substantial improvement of the institution's image projected to the society, while contributing to the fundamental taks of returning institution credibility to the citizenship.

The main factors that have contributed to the success so far are the following:

- the Tax Administration has been released from any type of political or power group pressures, regarding the appointment of its authorities and officers, as well as the work they perform;

- it has been implemented a transparent process of human resource qualification, incorporating personnel based upon professional merits, and ratifying part of the existing staff that was considered valuable according to their experience and capacity;
- the Institution's mission has been redefined, together with the future vision, guiding values and strategic objectives to be pursued; and based thereupon it was formulated a new organizational structure, which nevertheless is in need of some adjustments nowadays;
- a customer-focused organization, thus creating a Taxpayers' Service Management, and a constant improvement process of services that facilitate compliance of tax obligations;
- the tax obligation compliance control processes have been streamlined, especially examination processes, thus reducing discretionality in the selection of cases upon the incorporation of information technology crossing, which generated a higher sense of risk among taxpayers;
- the incorporation of new information and telecommunications technologies in: (i) the facilitation of tax obligation compliance, with the improvement of taxpayers' services, by means of tools such as the Webpage, a toll-free customer telephone line, etc.; (ii) the control of tax obligations by improving information technology systems and the generation of IT crossing in the selection of examination cases.

Structure of tax administrations and management processes.- The organizational structure of a Tax Administration may be defined based upon different criteria: taxpayers, taxes or functions and processes; there being no ideal models applicable to every Tax Administration.

When defining the organizational structure, it is important to have clearly in mind the processes that are carried out in a Tax Administration, which in general may be summarized as follows:

- service and voluntary compliance processes, which must be facilitated by the Tax Administration;
- control and determination processes, which comprise extensive and intensive control;
- challenge and collection processes, related to advocacy proceedings and the execution of tax delinquency.

TOPIC 2.2 (Bolivia)

The cited processes require three milestones for their effective and efficient implementation:

- resources and inputs, which comprise: clear and well-defined rules and procedures; intensive use of new information technologies, qualified human resources, physical and financial resources with self-management.
- institutional Management and Vision: Management planning and control, management information, spread and communication, audit and internal control.
- approach and principles; the performance of the Tax Administration must be based upon a balanced approach between taxpayers' service and tax obligation control, under principles of lawfulness, transparency and ethics, effectiveness and efficiency.

A. BACKGROUND

The main function of tax administrations is the efficient collection of taxes by facilitating services rendered to taxpayers and the application of effective controls in processes related to the tax obligations of taxpayers. In addition, customs administrations must focus on speeding up and facilitating foreign trade while safeguarding the interests of the State and society at large.

In this context, Tax Administrations must be agile enough to adapt to the changes imposed by the environment, through a continuous improvement of their operating processes. In furtherance of this purpose, it is required to have an adequate functional structure apt to organize and assign the roles of each one of the actors in an effective manner, and to successfully allocate limited resources.

B. INTERNALIZED DIFFICULTIES IN TAX ADMINISTRATION PROCESSES

In order to fulfill the function entrusted by the State, Tax Administration processes require constant change and adapting to the environment; however, they are bound to face a series of difficulties in the implementation and documentation of processes, whose main inconveniences will be dealt with below as per competence area, based upon the Bolivian experience.

1. Difficulties in Taxpayers or Taxpayer Roll Registration Processes.

As is the case with companies, which require knowing their customers, Tax Administrations (TA) require to have timely and truly information on their taxpayers, to perform an efficient management. The information in the taxpayers roll must provide basic data, such as the exact fiscal domicile, tax representatives, proxies and obligations that bind taxpayers.

If the information in the taxpayers roll is not correct, the rest of the tax administration processes turn inapplicable, since it is not possible to perform service and control tasks, and it hinders the examination processes in view that taxpayers cannot be located, or the right persons are not notified, or taxpayer's obligations are simply unknown.

In the case of the Tax Administration of Bolivia, in the 2002 management, more than 50% of registered taxpayers did not file tax returns or had unknown registered domiciles.

2. Difficulties in Tax Return Submittal and Tax Collection Processes.

As economic markets and activities develop, we face a constant growth in the taxpayers universe, where Tax Administrations have limited resources to effectively address their taxpayers; therefore, the intensive use of technology should be encouraged and, if possible, some services should be outsourced to be more efficiently managed by external entities, as is the case of tax collection by financial entities.

Manual filling of tax returns generate errors in the digitalization of data, with material consequences in information reliability and low levels of taxpayer assistance.

In 2004's management, Bolivia's Tax Administration had not yet implemented the submittal of tax returns via the Internet.

Given the limited staff at Tax Administrations, it is not possible to provide the same service to all taxpayers or to perform control tasks as effectively, so it is required to perform taxpayer classification as indicated by their collection payment and potential; generally, 20% of taxpayers accounts for 80% of tax revenues.

3. Difficulties in Examination Processes.

Examination processes are becoming the back bone of tax administrations. One of the main difficulties is the lack of access to internal and external information, over which fiscal intelligence criteria may be applied. Taxpayer selection methods subject to examination processes are performed discretionary and do not respond to objective criteria of evasion identification, resulting in an improper use of the available resources.

On the other hand, examinations are performed by officers who do not necessarily agree on the determinations pronounced regarding the same commercial transactions, resulting in the lack of homogeneous criteria.

There are no information technology applications that may allow to perform a follow up of examination processes and control the actions as to cases and collection.

Finally, there is a lack of training to control strategic sectors, such as hydrocarbons, mining, petrochemicals, etc.

In Bolivia's 2001 management, 75% of examination cases were selected without the participation of automatic systems and a prior information analysis. On the other hand, there was not a specialized examination for the hydrocarbons sector, which currently makes up for 30% of total tax revenues.

4. Difficulties in Technological Resources.

In a context of accelerated market and technology growth, tax administrations cannot remain alien to the investment in information technology equipment, mostly when control processes are based upon information processing.

When the institutional reform process started out, the National Tax Service had the following technological infrastructure:

- 18 Computing centers.
- More than 900 workstations with 80386, 80486 processors and Pentium I with Windows 95 operating system.
- 60 laser printers and 60 dot matrix printers.

- 30 10Mbps ethernet hubs.
- 30 portable pieces of equipment.

All the above mentioned equipment had 1996 technology or earlier, and it had not undergone a technological renovation or upgrade. So by early 2002, the whole equipment was practically obsolete.

As for the telecommunications infrastructure, it should be worth mentioning that 18 data computer centers were interconnected to a national network having limited information flow capacity¹. This - together with the fact that SIN systems had been developed to operate in a decentralized fashion, with information distributed among all its computing centers, whose success base was a good telecommunications scheme to have the information rightly distributed-brought about a high level of entropy in the system, and so it was easier to replace the system than to modify it or provide maintenance.

5. Difficulties Across All Processes.

From a macro perspective, the implementation and documentation of tax administration processes is facing transverse problems that involve most of the processes, such as:

a) Lack of a management career

In most tax administrations of Latin America there is no administrative career, and there is a strong political involvement accompanying the constant staff turnover. This situation generates negative impacts on the human resources motivation and training, as well as a tendency towards corruption, in view of the lack of labor expectations for officers.

b) Resistance to change

One of the most important problems that reforms face is the resistance to change of the people involved in the management.

¹ Connection between the national office and Cochabamba and Santa Cruz, at 19.2 kbps; connection between the national office and the districts of La Paz, Oruro, Potosi Yacuiba, Tarija, Sucre and El Alto, at 9.2 kbps.

c) Wrongly defined rules

In general, the rules are defined without consulting the Tax Administrations, thus applying the “from top to bottom” principle. This lack of consensus regarding change generates operating problems during the implementation process.

d) Lack of resources

In all States, physical, financial and human resources are limited and do not go hand in hand with the needs or demands required for the effective development of processes.

e) Lack of support from information technology applications that facilitate management of collection, examination and legal processes, including management indicators.

C. THE REFORM PROCESS OF THE BOLIVIAN TAX ADMINISTRATION

With the enactment of Act 2166,² the Tax Administration of Bolivia started out its reform process through the replacement of the Internal Tax Service by the National Tax Service (SIN, in Spanish), thus conveying not only a change in the institution’s name, but also material changes in service and control processes.

Pursuant to the National Law N° 2166, Bolivia’s Tax Administration is mainly entrusted with the function of administering the fiscal system through the efficient collection and examination of taxes and the guidance and facilitation of voluntary, truly and timely compliance with tax obligations.³ For this purpose, the SIN defines itself as a self-governed entity, administratively, technically and financially independent, under the guardianship of the Finance Ministry.

The transformation of the National Tax Service was begun by radically reducing political party involvement, through the creation of a Board of Directors that stands as the institution’s top regulatory authority. The members of the Board are appointed by the President of the Republic, from a group of three candidates that are voted and

² Act 2166 of December 22 of 2000, Institutionalization of the National Tax Service.

³ Section 3 of Act 2166.

approved by two thirds of the votes of the House of Representatives, and last 5 years in their terms. The Executive Director is the institution's top executive authority and is appointed by the President of the Republic from a group of three candidates approved by the National Congress. Even though the Act was enacted on December 22 of 2000, the Directors were appointed later in September 2001. As from such date, and with the support of the World Bank (WB) and the Inter-American Development Bank (IDB), the SIN's Institutional Reform Project has been implemented, whose main objectives are the implementation of an administrative career, the strengthening of tax revenue systems and the examination and implementation of the new Tax Code.

1. Human Resources and Staff Selection Process.

The need to have an efficient tax administration, isolated from political interests and economic pressures, was the determining factor for the enactment of Act 2166 by the National Congress in 2000, which drove the institutionalization process of the National Tax Service.

The Board of Directors and the Executive Director appointed by the Congress undertook the challenge of starting out a profound institutional reform, so as to provide the State with a modern, efficient entity, and most of all, fitted with mechanisms that would ensure an efficient fight against corruption.

The first step of the National Tax Reform was the implementation of adjustments to the organizational structure, with a new functional chart and the definition of an ideal roll with technical profiles. Later, its was undertaken the process of staff selection through qualified methods, by means of a public call based upon merits, for which it was decided to hire companies specialized in staff selection.

In February 2002, a contract was signed with the company P.A & Partners, thus starting the First Selection Process for 300 positions at the National Tax Service. Among the 300 vacancies were hierarchical positions such as managers, chiefs and professionals. A total of 15,217 candidates were received for this call at a national level, of which 10,917 were admitted to the tests, with candidates chosen to fill 197 vacancies, as a consequence of which a second call was made, carried out by the same company, for unfilled vacancies.

TOPIC 2.2 (Bolivia)

Following the institutionalization process, in November 2002, the Second Selection Process took place for 505 vacancies at the National Tax Service, a process conducted by the Consulting firm Berthin Amengual, with 15,828 candidates received this time, of which 12,486 were admitted to the tests, and 418 candidates were selected. A second call was made by the same company for unfilled vacancies.

Later, in June 2003, Selection Processes conducted by the Institution started, which were performed by the National Management of Human Resources, intended for supporting positions (Secretaries and General Services), and for the posts that for different reasons were unfilled.

In furtherance of the principles of competitiveness and transparency, since the 2003 management, internal and external selection processes have been performed within the strict frame of the Basic Rules of Personnel Management, conducted by the National Management of Human Resources.

In January 2005, as a consequence of the creation of the Hydrocarbons Sector Management, a selection process for 12 vacancies was carried out by the company Consultora P.A & Partners, which attracted 737 applicants to the call.

With the purpose of consolidating the professional team, the SIN has been facing an aggressive training plan, because even though the mass income of the new personnel has allowed a positive change in the institutional culture, training is a permanent tool that will allow to keep the efficiency and effective levels of the Institution.

Nowadays, training is provided to the officers at the National Tax Service, which consists of 80 annual hours of training for each institutionalized officer; the method used is the traditional training, which has a limited scope and does not allow to reach timely and permanently all the country's districts.

Today, the preparation of the E-learning Strategic Training Project, called "Learning Management System (LMS)", is about to be concluded, whose main objective is to create a training solution that may allow to reach ALL officers at the tax service, by means of an e-learning-based distance-course platform, so as to achieve professional development and the performance of institutional goals. This project will allow to develop and distribute skills, knowledge and attitudes at distance, by means of the Internet, and based upon the knowledge universalization principle, thus providing equal opportunities to all officers at the National

Tax Service, with benefits of national and immediate scope levels, 365-day availability throughout the year, continuous, homogeneous and low-cost training.

2. The Customer Service Approach.

With the creation of the Taxpayers' Service National Management⁴, what is pursued is to give a new approach to the functions of the taxpayers' service that are rendered at the National Tax Service. This new approach places taxpayer as its main core (tax customer), and its new policy is to render as high quality services as possible.

Under these premises, this National Management has been working in the preparation of the different diagnoses and plans, either by means of ZOPP-methodology workshops or measurement studies regarding taxpayer's perception of the quality of our services.

These studies and diagnoses have originated different plans and activities, which have not been sistematized yet in one single document containing the proposed strategies and plans within a logic frame of strategic planning, and which could help the Institution perform an adequate follow-up and verification of the degree of scope of the proposed objectives.

With a view to "*Facilitating Voluntary Compliance of Taxpayers' Obligations*" the Institution has defined strategic areas of action regarding the following services:

- To Improve and Enlarge Taxpayers' Information and Guidance Services;
- Training for Taxpayers, Informative Texts and Tax Education;
- Operating Evaluation and Quality Control of Services.

2.1. To Improve and Enlarge Taxpayers' Information and Guidance Services

a) Presence and information services (at the offices).

On this regard, Multi-Errand assistance modern desks have been designed and created, together with new Taxpayers' assistance offices in other strategic areas of cities having a significant number of taxpayers.

⁴ Ministerial Resolution No. 1117 of 11/30/01.

TOPIC 2.2 (Bolivia)

The decentralized taxpayers' service platform (branches) will address several errands that range from the registration of the NIT (Taxpayers' Identification Number), invoice apportionment, delivery of forms, information and guidance, and drop of (inactive) taxpayers. It is intended to serve 35% of the taxpayers' roll of the main city of Bolivia: La Paz.

Within the frame of the Institutionalization, the SIN intends to facilitate and universalize compliance of tax obligations "by bringing their offices near to the taxpayer". Thus, taxpayers will be served at the multi-errand platform, by means of an electronic ticket that will allow them to wait for assistance while comfortably seated and enjoying tax information and guidance-content videos. "No Lines" is the new philosophy of the new taxpayers' service system.

The new taxpayers' service system will make for a reduction of errand time and higher service quality, under the philosophy of the multi-errand desk, so that taxpayers will be able to perform all intended errands at the same desk.

b) Telephone services and information (toll-free hot line)

It is important to have an information and guidance instrument through a toll-free service, in which taxpayers can be informed on their tax obligations and on how they must fulfill these tax obligations.

The National Tax Service of Bolivia has a toll-free call center working non-stop from 8:30 AM to 6:30 PM, in which each officer is permanently trained (80 hours a year) and qualified to provide uniform information to all taxpayers.

An IVR call center is contemplated, whereby taxpayers' services will be rendered, such as consultations to the roll, prior appointment fixing, submittal of non-movement DD.JJ (zero payment) on the phone, etc.

c) Services and information through the Internet (SIN's Tax Portal)

A new design has been prepared of SIN's Tax Portal, which is structured in three major areas: Services, Information and News.

As one of the main services provided through the Internet since January 2005, the tax portal of the National Tax Services of Bolivia allows Main

and Large Taxpayers of Bolivia (80% of tax revenues) to present their DD JJ on line through the Internet, thus making for the entering of the Bolivian Tax Administration in the information technology era. An enlargement of this service is scheduled by late 2005, aimed at reaching the rest of taxpayers (20% of tax revenues); also contemplated is the enlargement of the new services, such as consultations to the roll, issue of tax statements, and others.

We believe that the intensive use of the new information technologies will allow to enlarge and provide better services to taxpayers and facilitate voluntary compliance of their tax obligations.

2.2. External Training, Informative Texts and Tax Education.

a) External Training and Informative Texts.

Another efficient way of bringing tax information to taxpayers has been the courses, workshops and seminars conducted throughout the year with important union, corporate and professional institutions, in which taxpayers are trained in different aspects related to their tax obligations, which allow to unify criteria regarding how taxpayers must perform their errands, tax returns, invoice apportionment, before the Tax Administration.

Another very important aspect in the facilitation of Voluntary Compliance of Taxpayers has been the generation of tax-content texts (tryptics, leaflets, signs, etc.), that allow taxpayers to keep themselves informed on how to perform the different types of errands.

b) Tax Education

The little tax awareness in several countries of Latin America forces Tax Administrations to have Tax Education Programs or Projects that allow to increase tax awareness in prospect taxpayers (students at Schools and Universities).

In this sense, since 2003, the Tax Administration of Bolivia has been carrying out Tax Awareness or Educational tasks, by preparing a series of educational material (presentations, games, contests, participation at fairs, etc.), which allows pre-taxpayers to learn about the importance of tax payment for having better health, educational and public work services.

2.3. Operating Evaluation and Quality Control of Services.

a) Service-quality measurement studies

All services and contact areas with taxpayers in which services are provided must be evaluated and measured as per taxpayers' perception. In this sense, since 2002, the Tax Administration has been performing an annual study to measure service quality, according to 7 quality indicators: Received Treatment, Time Perception, Easiness of Errands, Information Management Perception, Infrastructure and Information Quality.

Measurement of these indicators allows us to perceive the level of satisfaction of taxpayers in the different regions of the country, regarding rendered services, and to re-define and/or prioritize actions within the Tax Administration.

b) Complaint, suggestion and report box

Another very important aspect in the periodical evaluation of services is the reception of suggestions, complaints or reports from taxpayers, by means of physical boxes located at all offices of the Tax Administration at a National level, the (toll free) call center and the Tax Portal.

3. New Tax Code.

Several causes have led to the approval and implementation of the new Tax Code: the existence of outdated rules due to reforms or approval of laws such as the Judicial Organization Act, the Customs General Act, the Administrative Procedures Act, the Criminal Code, the Criminal Procedure Code, and especially the National Tax Service Act, added to justice delays in Tax Adversary proceedings, the untimely application of precautionary measures, and the increasing tax evasion and fraud; which reflected the apparent need to establish a new regulation targeted at adequately governing the relationship between the State and Taxable Persons.

Among the main concepts incorporated by the Act 2492 – New Tax Code of Bolivia, the following may be mentioned:

- The scope of application of the Tax Code is extended to university taxes; because prior to the enforcement of the new Tax Code, the provisions were only applied to national, departamental and municipal taxes.

- As for the classification of taxes⁵, Municipal Patents are incorporated, triggered by the use or exploitation of public domain property, as well as the obtention of permits for the performance of economic activities. It is worth noting that even though this classification is not in line with the three-part traditional classification, it complies with, or in any case, fits the constitutional prescriptions.
- As for the definitions of taxable persons or taxable third parties, Article III (**parties to a tax legal relationship**), introduces new concepts, by expressly considering that taxable person is the taxpayer or a substitute thereof, and pointing out that Taxpayer is such taxable person upon which it is verified the fact generating the tax obligation, and Substitute is such natural or juridical person generically defined by a tax regulation provision, which must fulfill substance and procedural tax obligations for the taxpayer. It also rules everything related to Joint Liability and its Effects.
- Title II - Chapter I, sets forth the rights and obligations of the parties to a tax legal relationship, that is, those of the public entity and the taxable person; and incorporates the legitimacy principle regarding the actions of the Tax Administration. With regard to this chapter, it is important to point out the clarity in describing the powers of the Tax Administration, among which stands out the obligation to provide information to the Tax Administration upon the latter's request; the rights of the taxable person and the assumption of the latter's tax obligation compliance, upon the application of the good faith and transparency principle.
- Aside from the fact that the incorporation of the new concepts is of great contribution, many of them have also contributed with a high degree of legal security to the Tax Administration, and therefore to the State, such as the appreciation, pertinence and timeliness of proofs, when providing that upon the application of the pertinence and timeliness principles, the proofs shall be rejected that were required and not submitted during the examination process of the Administration. Furthermore, it should be mentioned that information technology means and the printing thereof will constitute proof.
- Another element that undoubtedly facilitates the role of the Tax Administration is the incorporation of mass notices and the legal representative, referred to in Sections 89 and 91.⁶

⁵ Section 9 of the Act 2492, Bolivian Tax Code.

⁶ Section 89 provides that Charge Inspections, Determinative Resolutions and Punishing Resolutions, deriving from special determinative proceedings affecting a generality of tax debtors, whose debt amounts do not exceed the authorized amounts, may be notified through a publication in the national circulation press. Section 91 provides that in the case of sole proprietor companies and juridical persons, notices may be performed to the person registered with the Tax Administration as the legal representative; to change the representative, a prior communication and registration must be performed for this change to bear effects for the Tax Administration.

TOPIC 2.2 (Bolivia)

- It is also established a Determinative Procedure in Special Cases, deriving from arithmetic mistakes contained in tax returns, which may have generated a lower payable value or a larger balance receivable by the taxable person, which entitles the Tax Administration to perform the pertaining adjustments by directly issuing a Determinative Resolution, that is, omitting the Charge Inspection.
- Furthermore, it is established a proceeding for unpaid or partially paid Tax Returns through tax execution instruments; this incorporation has facilitated collection of obligations, in view that pursuant to the interpretation of the Supreme Court of Justice of the Nation, the Administration had to perform the whole determinative proceeding to collect the payment, thus underrating tax returns submitted by the taxable person; that is, it did not admit the determination by the taxable person, with a large detriment to the Tax Administration.
- Special proceedings are also included, such as: inquiries whose answer shall be binding for the Tax Administration; Action for Improper Delivery, for undue or excessive payment; Fiscal Return (exports) and Restitution of undue returns; it should be clarified that these last two concepts are clearly intended for the fiscal return in export activities, within the frame of the fiscal neutrality principle.
- Another material change is the creation of the Tax Superintendency having jurisdiction and competence all throughout the national territory; however, the Constitutional Court has determined that there is no effective juridical guardianship, so the tax adversary proceeding may as well be exercised.
- As for the non-issue of invoices, fiscal notes or equivalent documents, Section 170 sets forth the sua ponte control power; such section has been ruled by the Supreme Decree N° 28247, which provides two control modalities: Direct Observation and Control Purchases. The latter has allowed the implementation by the Tax Administration of a Fiscal Control Project called Public Faith Projects. It should also be pointed out that within the penalties for fiscal crimes, imprisonment has been implemented as a main penalty.
- To facilitate the transition from the old Tax Code to the new one, the application of a Temporary, Voluntary and Exceptional Program has been approved by law, for dealing with delinquent fiscal debts as of June 30th of 2003.⁷

⁷ The Regularization Program established by Act 2492 has allowed to collect 950 million Bs. (118 million American dollars), which makes up for nearly 15% of tax revenues projected for the 2005 management.

4. Information and Technology.

Once the reform process started, the National Tax Service undertook as a prioritized task the design of a Technology Strengthening Plan, which outlined the tax administration's information technology strategy regarding software and mainly hardware applications.

4.1. Hardware capacity

Changes in equipment have been the following:

- Nowadays, the SIN has only one centralized computing center that meets international standards of operation and security, and a second contingency computing center located in the city of Santa Cruz, which allows the SIN to keep a high level of security regarding the geographic separation of computing centers.
- The SIN has replaced its small servers at each District with a group of three high-availability servers, two of which are located in the city of La Paz, and one in the city of Santa Cruz.
- The SIN has changed from a decentralized operation to a wholly new centralized one.
- Different-speed Pentium 4 computers have been purchased intended for an effective technological upgrade. In addition, the SIN has defined the annual replacement of 33% of the total equipment, as a renovation policy targeted at keeping itself sufficiently updated at all times.
- New laser printers have been purchased, and a purchase policy has been outlined, which prioritizes the purchase of laser printers for work groups over personal ones.
- Last-generation portable equipment has been purchased, both for managers and for the staff mostly engaged in field work and/or trips.

On the other hand, network equipment has been purchased, and the company ENTEL (Datacom) has been hired for the national network system.

On the whole, regarding the technological aspect, the National Tax Service has increased computing or processing capacity of its national servers by 6,000% (60 times as much), and storing capacity by 8,000% (80 times as much), compared to their 1996 servers.

4.2. Software Platform and Centralization

Between 1996 and 1997, the Institutional Strengthening Program of the Tax Service (PROFISI, in the Spanish acronym), developed the main application of the National Tax Services, SIRAT, which had the following characteristics:

- A written application with 1996 tools: Oracle Forms 4.5 and Oracle Reports 4.5
- The application was designed for a distributed environment, which included a central node (NICE) and 18 computing centers spread throughout the country.
- This application ran over Oracle data base.
- It had a tax return typing scheme that required an average of 20 full-time typewriters, which never appeared on the SIN's roll.
- The application was started up in 1998 in Graco La Paz, and finished by late 2002, in the District of Cobija.

In addition, there were applications in other platforms:

- CEDEIM application, in use from 1992, ran over Informix platform, in 13 out of 18 computing centers.
- The collection application at banks was one developed with Delphi 1.0 (1995 technology, which ran off line with an Informix data base at the headquarters of banks, and with paradox at branches and tellers. The exchange of information was performed through diskettes.

On the other hand, the SIN had a high diversity of operating systems (seven different ones for 18 computing centers) and data bases (34 data bases between Oracle and Informix, ruling out Informix and Paradox at banks).

The lack of a consistent communication scheme, as well as a standardized application distribution scheme - added to the fact that the total implementation of the system took five years- brought about serious problems as to application versions, data structure of data bases and consistency of information.

In this sense, it remained clear that the only possible solution was to restructure the SIN's applications to operate in a centralized environment, and consistent at a national level. Such process was the basis for the general centralization process that started out in August 2003, and concluded in December 2004. The process integrated the whole series

of changes to be undergone by the SIN, which came to be called SIRAT2, and was developed in Oracle 9iR2, instead of the 7.3 version in use at that time (a 6-version leap of of data bases).

In addition, and as part of the technological upgrade process, a new application was developed to allow SIN to have financial entities connected on line to a new tax collection system. This system, called Copernico, included:

- On-line operation with 11 financial institutions.
- Over 700 tellers connected on-line to SIN's national server.
- Over 200 financial branches connected on-line to the SIN.
- Technological update with current tools and operating systems, unlike the previous application that ran only in Windows 95, as of 2004.
- Higher control over tax revenues and operations performed by financial entities.
- Security and administration schemes of renewed users.
- Capacity to make payments at any point in the country.

As part of the same application line, Newton application was developed, SIN's Fiscal Portal that firstly operated for the 2000 largest taxpayers of the country, and which allow them to submit their tax returns through the Internet, with no need to appear personally at the offices of Graco every month.

Finally, the information final centralization was carried out within a process called Information National Synchronization, which concluded with the operation of the new system, on January 3 of 2005, through the following implantations:

- SIN's only and centralized data base.
- SIRAT2 application for all internal users.
- Application of Copernico on-line collection by financial entities.
- Application of Newton, a fiscal portal for the filing of tax returns through the Internet by large taxpayers.
- The NIT came in force in replacement of RUC.
- The registration process was concluded.
- All distrital services and foreign national services were paid off.
- 18 decentralized computing centers were closed down.

5. Registration and Classification of Taxpayers.

Given that the information in the taxpayers' roll lacked reliability and the importance due to any such roll, it was considered to face a new registration process⁸ targeted at the following:

- Having reliable information.
- Updating taxpayers' data and enlarging the fiscal universe.
- Allocating the taxpayer identification number, to avoid duplication and facilitate information exchange with other institutions.
- Detecting Prospect Taxpayers Not registered or wrongly registered.

As a result of this process, 186 thousand taxpayers were registered as of June 2005, roughly 25% more than the figure of 2004.

With a view to providing a better service for Large Taxpayers, as well as achieving a better control, the universe of Gracos was reduced from 6,000 to nearly 1,600, based upon a calculated weighted criterion as per variables such as paid taxes, determined taxes and total revenues. This criterion was reflected through a Prescriptive Resolution of the Board, so that taxpayers would know how they have been classified.

6. Examination and Control.

Since the 2002 management, the implantation of the New Examination approach has been under process, which among its control policies includes the definition of taxpayer selection methods through fiscal intelligence criteria and an intensive use of information technology systems. For this purpose, third parties' information systems and the use of state-of-the-art technology were strengthened.

Until December 2002, nearly 75% of taxpayers subject to examination were selected discretionary and only 25% responded to automatic selection methods; as of June 2005, almost 80% of the cases subject to examination were selected through automatic means, without the participation of officers; and 20% of the examinations were performed through mandatory methods required by the Judicial branch or the General Comptroller of the Republic.

⁸ Through Prescriptive Resolution of the Board 10-13-03 of September 3, 2003, it is created the Taxpayer Identification Number (NIT, in the Spanish acronym), in application of the Supreme Decree 27149 that entitles the SIN to substitute the Taxpayers' Registry.

Among the most important fiscal intelligence processes are:

a) Reported Purchases Versus Declared Purchases

This process consists in comparing the purchases declared by one supplier against the addition of purchases declared by their customers, through IT systems.

b) Credit Cards

Using the information from Credit Card Administrative Companies, verification processes have been created for taxpayers who sold with credit cards amounts in excess of their declared sales, taxpayers who sold with credit card and who belong to the simplified system, as well as those having dropped RUC but who continued selling with credit cards.

c) Non-performance of purchase and sale book submittal

Given that the information is the milestone of the examination processes, taxpayers who have not performed the submittal of purchase and sale books as required by the tax administration are automatically identified, against which automatic contravention summary proceedings are initiated.

d) Duplicate invoices

By means of the automatic information processing, duplicate invoices have been detected, which have been used by more than one taxpayer in their fiscal credit.

Aimed at controlling the issue of fiscal notes or equivalent documents, in August 2005 it was implemented the Good Faith Unit, with national scope. This unit has a high capacity to identify the non-issue of invoices, through simulated purchase proceedings.

7. Financial resources and infrastructure

The enactment of Act 2166 provided that budget allocations for the Tax Administration should be up to 2% of cash revenues of internal taxes of the previous tax management. As a result of the application of this rule, over the last years, revenues have increased significantly, from 18% in 2003's management to 27% in 2004's management; despite the fact that revenue coefficients were 1.33 and 1.29 in 2003 and 2004's management, respectively.

Even though the resources at SIN's accounts are readily available, these cannot be used immediately because they require to be released after a process conducted by the Finance Ministry.

8. Result compliance agreements

Result compliance agreements are an important tool to achieve higher levels of financial self-governance and extraordinary resources for financing activities not contemplated in the management's programs.

In the case of Bolivia, public entities have a result-based evaluation system. Also, this management has signed a result agreement with the Finance Ministry, whereby the National Tax Service is committed to an extraordinary tax collection of nearly 3%. In consideration, the Finance Ministry has committed itself to an 11% additional budget that includes the funding of staff growth and the pertaining diligences for salary incentives, pursuant to the regulation.

D. PENDING REFORMS

Within the pending reforms of Bolivia's tax system is the removal of special systems that do not allow to develop an adequate control of tax obligations and the implementation of the income tax on natural persons. These problems are described below.

1. Special Tax Systems.

With the Act N° 843 of May 20 of 1986, the Bolivian State implemented the Tax Reform in our country, aimed at facilitating its application, management and interpretation. The reform contemplates a large sector of taxpayers included in special system categories, which generates the need to rule tax payment of this sector; a sector that, Given its socioeconomic condition, is unable to register their transactions according to accounting principles, present their corresponding financial statements and issue fiscal notes for the sales they make or the services they provide.

Special Systems nowadays consist of: the Simplified Tax System (RTS, in the Spanish acronym) and the Integrated Tax System (STI, in the Spanish acronym), whereby it is sought to match the fiscal interest with the corresponding one in this sector of taxpayers.

Taxpayers of the Simplified System are all natural persons performing activities related to retail trade, crafts and the sale of food and beverages. This system was approved due to the significant impossibility of a large number of taxpayers to comply with their tax obligations, on account of their social condition, scarce instruction, impossibility to carry accounting books, issue fiscal notes or equivalent documents of sales or services. Therefore, it was contemplated to perform the liquidation and payment of VAT, IT, Profits and SS-VAT, in a unified fashion.

Taxes that pursuant to the last provision are payable by taxpayers of the Simplified Tax System are summarized in a two-month fixed quota, which is paid by submitting a single payment ticket, with which any of the five existing categories that follow can be paid; namely⁹:

Chart 1
SIMPLIFIED SYSTEM PAYMENTS AS PER CATEGORY

CATEGORY	CAPITAL (Bs)		TWO-MONTH PAYMENT
	FROM	TO	
1	12,000	15,000	47
2	15,001	18,700	90
3	18,701	23,500	147
4	23,501	29,500	198
5	29,501	37,000	200

For taxpayers under this system, the value of annual sales must not be in excess of Bs. 136,000; in the case of retailers, the unit price of traded merchandise and/or services rendered shall not be in excess of Bs. 480 for retailers, Bs. 100 for vivandieres, and Bs. 640 for craftsmen.

The integrated tax system is intended for the transportation sector, through the establishment of a Tax System that may facilitate tax obligations of this sector. The main reason for its creation is because public transportation offers services for values lower than those set forth for the mandatory issue of invoices (Bs.5), making its control difficult.

The form of payment for this system is on a quarterly basis, and five categories are established, that range from 100 Bs. to 700 Bs. Taxpayers of the Integrated Tax System may offset the amount of their fixed taxes with 13% of all their purchase invoices pertaining to the taxable quarter, practically as a fiscal control mechanism.

⁹ The exchange rate is 8 bolivianos per 1 American dollar.

2. Revenues from Special Systems.

For the 2004's management, RTS revenues reached 0.13% of total revenues, which goes to show its minimum incidence in revenues; also, it makes up for 0.012% of the GDP of such management, so it could rightly be concluded that the yield of this System does not have fiscal relevance.

Under the period of analysis, the STI share in total revenues is 0.006%, which goes to show a minimum incidence in the revenues of the National Tax Service. Also, it makes up for 0.0005% of the Gross Domestic Product, which confirms that the yield of this System is insignificant within the context of the National Economy and tax revenues, placed below the yield of the Simplified Tax System, since in terms of tax revenues, it makes up for 4.4% of R.T.S. revenues.

3. Supplementary System to the Value Added Tax (SS-VAT).

As the name indicates, the Supplementary System to the Value Added Tax is a tax that attempts to supplement the functioning of the Value Added Tax, introducing a new modality in the "Opposite Interests" between sellers and buyers, in that it adds this control to the final consumer, as a relevant control element in the final step of the goods production and distribution process.

On the other hand, the Bolivian Tax System does not consider the tax on Income of Persons, and consequently, the SS-VAT does not substitute this tax. Ever since it came into force, the Supplementary System to the Value Added Tax, SS-VAT, has been applied to the income (excluding patrimony), whatever their denomination or form of payment, from urban or rural real estate rentals, as well as from the lease or sub-lease of chattels, rights, mining and agriculture concessions; profits from capital investments, interest, dividends; salaries, wages, overtime, premiums and others (in money or species); from the practice of liberal professions or crafts; royalties, patents, trademarks, technical assistance and others. The jurisdictional principle supporting this system is the Source Principle.

Taxable persons earning income from contract works may deduct labor contributions to the social security system and others provided by social laws; as well as the equivalent to two minimum national salaries as a minimum non-taxable base. Also, up to 13% can be deducted from consumption credited with the pertaining fiscal notes.

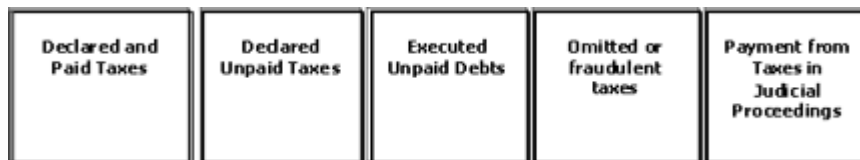
4. SS-VAT Revenues.

As far as revenues are concerned, in 2004's management, the incidence of the SS-VAT in total revenues, excluding temporary taxes, made up for 2% of total revenues, a percentage that represents an amount of 23.7 million dollars in revenues during the whole management.

E. STRUCTURE OF TAX ADMINISTRATION AND MANAGEMENT PROCESSES

As with any entity or company, the definition of the organizational structure is one of the most important instruments for achieving an institutional vision and mission, since from this definition, the development and management of institutional activities will be outlined.

In this context, tax collection is the target function of Tax Administrations, which originates through the following income modalities:



- a) Revenues generated from taxes declared and paid voluntarily by taxpayers. It generally represents between 96% and 98% of total revenues.
- b) Revenues generated from compelling actions filed by the Tax Administration, over taxes declared and not paid.
- c) Revenues generated from the collection of executed delinquent debts.
- d) Revenues originating from the product of examination processes, which allow to identify and justify obligations omitted by taxpayers.
- e) Finally, revenues generated from process under the diligence of the Judicial branch.

To maximize the collection function, Tax Revenues require to work based upon two milestones: Taxpayers' Service and Control and/or Examination. From this perspective, the activities of the Tax Administration may be broken down in the following macro-processes.

1. Service and Voluntary Compliance Processes.

a) Education of pre-taxpayers

The Tax Administration is responsible for executing the tax education programs for pre-taxpayers, related to the registration with the taxpayers' registry, the types of existing taxes and the remaining taxpayers' obligations.

b) Identification before the Tax Administration

With the aim of conducting an adequate control of fiscal obligations, it is necessary to open a taxpayers' roll containing personalized information and a single identification code, to which taxpayers' returns and obligations may be associated.

c) Authorization of fiscal documents

Includes the processes related to the authorization of fiscal documents that are required to perform economic activities, such as invoices or fiscal notes, printings, etc.

d) Taxpayers' operations

Once taxpayer has the necessary registries and documents, he/she is authorized to carry out his/her economic transactions.

e) Request of other errands from the tax administration

The performance of taxpayers' activities can require a number of diligences not directly related to taxes, but which are submitted before the tax administration, such as the request of certifications, legalizations or any other request of services.

f) Taxpayer's operations registry

Taxpayers are obliged to carry an integral record of all their commercial transactions; in this sense, the Tax Administration may generate obligations for taxpayers, such as VAT sale and purchase books, the preparation of Financial Statements, record of journal books and account ledgers, fill out third-party information forms, etc.

g) Tax Returns

Contains the processes related to the presentation of Taxpayers' Returns, which are intended for the use of Internet through the submittal of electronic forms; however, an alternative must always be provided to taxpayers who do not have access to this technology.

h) Payment of Tax Obligations

Upon the determination of tax obligations, payment thereof follows, which must be performed preferably through financial entities.

2. Control Process of the Tax Administration.

With a view to maximizing voluntary payment of taxpayers, the Tax administration must carry out controls as effectively as possible. Controls may be summarized in the following processes.

i) Tax identification control

The Tax Administration must perform controls to verify whether taxpayers are registered or not, and whether data correspond to registered taxpayers. These controls may be preventive and/or restraining.

j) Control of taxpayers' operations

Controls are intended for the compliance of each commercial transaction with the obligations established by tax regulations, such as the issue of fiscal notes or equivalent documents.

k) Control of DDJJ and taxpayer's payment

The Administration must timely perform the controls over the submittal of taxpayers' returns and the correct payment of taxes.

l) Control of DD.JJ and Taxpayer's Payment consistency

Consistency controls refer to the analysis of internal and external information in the Administration, checked against the information submitted by a taxpayer, to identify possible errors or anomalies.

m) Intensive Control

These controls correspond to the examination processes that allow to identify undeclared taxes by taxpayers. These processes may have different levels, since the examination may focus on one transaction, on a tax applied over one or several periods, or several taxes over several periods.

3. Challenge and Collection Processes.

n) Litigation processes

They constitute the defensive actions undertaken by the Tax Administration to justify the determination of obligations not fulfilled by taxpayers. These actions are filed outside the Tax Administration, generally before the judicial branch instances.

o) Processes for the recovery and collection of debts

Pertain to the recovery of taxpayers' fiscal debts that have been executed and for which no protest alternative of taxpayers exists. In these cases, the Tax Administration may execute all precautionary measures, pursuant to the effective regulations.

It is recommended that the organizational structure of tax administrations should be defined based upon the process above described; however, other aspects must be born in mind, such as human resources, physical and financial constraints, as well as management capacity. On this regard, the structure may group several macro-processes of related application, intended for an operationally viable structure. On the other hand, when defining structures, it is necessary to bear in mind the management capacity required; for example, an integral supervisor cannot manage more than 8 or 9 processes at once, depending on the size of taxpayers.

Notwithstanding that the Tax Administration may have processes based upon taxpayer facilitation principles and effective control processes, the expected results will not be achieved unless it is provided with the following:

Resources

The Tax Administration's management requires the necessary human, physical, financial and technological resources. In general, there is not a sufficient autonomy for the use of resources, and their allocation depends upon other instances alien to the Tax Administration's management. In this sense, problems are come across, such as the political involvement in contracting human resources, the lack of building and information technology equipment infrastructure, the lack of management capacity and financial resources required for the activities.

Management and Institutional Vision

An adequate planning must be in place, which clearly defines the goals of the administration in the short and long term; also, a management capacity is needed to organize and execute the management.

Values and Principles

Institutional values and principles need to be internalized by the human resources, prioritizing honesty, transparency and service calling; emphasizing taxpayer assistance, and the respect for their rights at all times.

The allocation of resources must be governed by an adquate planning of activities at the beginning of each management, based upon the identification of activities or taxpayers requiring more service or control, and the impact at a revenue level.

F. CONCLUSIONS

1. The first factor required for the success of any Reform is the real commitment undertaken by the Government, as to releasing the Tax Administration from any type of political or power group pressures, both regarding the appointment of its authorities and officers, and the work that they themselves will develop.
2. It is important to carry out a process of tax administration institutionalization, incorporating personnel based upon professional merits and providing them with the opportunity to

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develop an administrative career in the long term. The human capital is the ultimate asset of any institution.

3. A strategy is required to be outlined, clearly stating the Institution's mission, the future vision, guiding values and the objectives to be pursued; and based upon such strategy, an organizational structure focused on the processes that must be developed to achieve institutional objectives.
4. It is necessary to focus the organization on the customer, developing a constant process of taxpayers' service improvement, facilitating taxpayers the compliance with tax obligations.
5. In line with this, it is required to enhance the processes of tax obligation compliance control, both regarding extensive control and the control performed through fiscal intelligence processes (intensive control); in the last case, it is necessary to reduce as much as possible the discretionality in the selection of cases to be supervised, so as to obtain maximum results.
6. The use of tools provided by the current technology, especially information technology, is of vital importance to facilitate compliance of tax obligations and to optimize control thereof.
7. The fiscal management requires the allocation of human, physical and financial resources, for which purpose the Tax Administration must have enough autonomy to provide resources in a timely manner.

Case study

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MANAGEMENT, ORGANIZATION, STRUCTURE AND RESOURCES - SOME GENERAL CONSIDERATIONS

Maria Raquel Ayala Doval
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CONTENTS: I. The Tax Administration: The Relationship Between the Functions / Processes, the Structure and Action Policies as Management Elements.- II. Organization and Structure.- Coordination, division and integration.- III. Evolution of the Tax Administration.- Geographical approach.- Process and Functional Approach.- Approach based on tax laws or type of taxes. State taxes, customs duties and excise taxes and social security contributions.- Approach according to type of taxpayer (customer).- IV. The Current Situation in the CIAT Member Countries.- V. Organizational Schemes: Existence and Responsibility of a Central Body.- V.I. The role of CIAT in strengthening the management of the tax administrations.

The tax administration is aimed at organizing, directing and controlling all issues related to taxes created for satisfying the needs of the State and, accordingly, of the taxpayers. The tax administration, therefore, is in charge of determining the tax relationship with the taxpayers, collecting the taxes and resolving controversies that may arise with the taxpayers.

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In order to comply with those objectives, the tax administration, as ¹third component of the necessary trilogy for financing State expenditures must obligatorily have the legal powers that may allow it to verify correct compliance with those obligations. It should also be afforded a series of processes that may define and establish the components and the logical sequence in exercising the substantive or primary functions of the administration, based on the powers that have been granted it. Likewise, it should be given a means or vehicle for developing them, such as the definition of an appropriate organizational structure adjusted to the tax system it must administer. Finally, it should have a source of financing for the optimum development and operation of the entire entity.

These powers are distributed among the different functions and/or processes that could be considered “the tasks” of the administration that has been traditionally divided into two types: those considered the main ones or “the primary tasks” of the administration and the support ones, namely: “the support or aid to the primary tasks”.

The interaction of these four elements: - The primary functions – the support ones, both seen as processes for achieving the objectives of the tax administration, - the form adopted by the organization for complying with those same objectives – (the structure); and the form or sources that allow for financing them will be elements to be developed throughout this paper in an enunciating manner, since the importance and complexity of each of them would give way, as in fact it has done, to their individual and in-depth analysis, which because of time and space constraints is not our objective here.

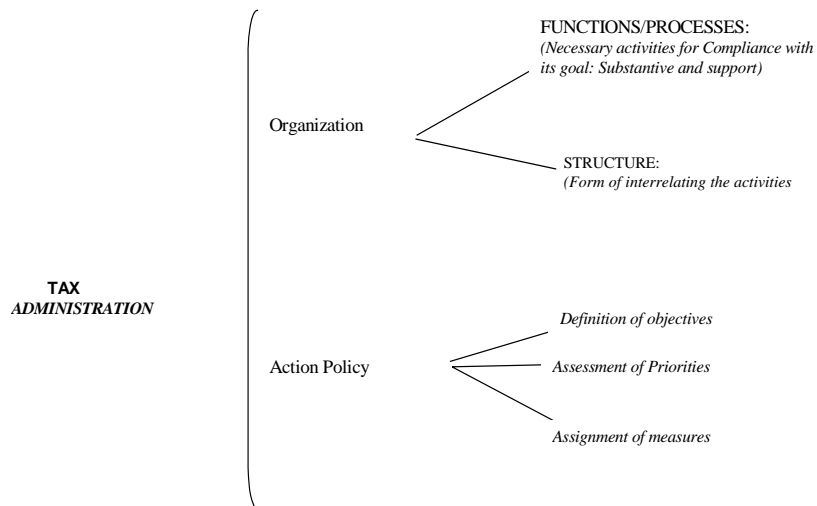
I. THE TAX ADMINISTRATION: THE RELATIONSHIP BETWEEN THE FUNCTIONS/PROCESSES, THE STRUCTURE AND ACTION POLICIES AS MANAGEMENT ELEMENTS

To analyze the relationship that may exist between these elements, let us begin by defining what we understand by tax administration. To this end, let us take the definition developed by Claudino Pita when saying that the tax administration is that segment of public administration that is in charge of the application of taxes and the control of compliance with tax obligations in general. ²

¹ The other two are the tax system and tax law.

² Pita, Claudino; Tax Administration, XII Course on Tax Administration, CAT, Brasilia, 1986.

*In its development and study one may differentiate the following fundamental aspects:*³



Two fundamental aspects are highlighted in the previous scheme: Organization and action policies. The organization comprises the development of substantive or primary and support processes which the organization must develop, the structure through which the functions will be carried out, that is, the necessary activities for complying with the objectives and through them ensuring compliance with the institutional mission. The structure is merely the form adopted by the organization according to the tax system in force.

On its part, the action Policy is the one in charge of defining the objectives, determining the priorities of the organization and accordingly assigning the measures. Action policy and organization are closely linked. Both are components of the tax administration, thus allowing it, on the one hand, to define its scope and goals (action policy) while the other, is the vehicle that allows their execution (organization).

In general, the tax administrations share similar objectives since the mission defined by them is the same, namely: To ensure the financing of State expenditures through the efficient administration of the tax system.

³ Ibid.

i. The functions of the tax administration stated as processes.

The first element within the previously proposed scheme is that of the processes. They are defined as those functions to be carried out by the tax administration: “the tasks” for compliance with its institutional objective.

As previously mentioned, these functions have been traditionally divided into two classes: main, substantive or primary and aid or support for the effective development of those primary functions.

The substantive functions or processes are but those through which the organization ensures compliance with the tax obligations by means of their collection, their correct assessment through the control of evasion and fraud and enforced collection when the obligatory amounts have not been partially or fully paid. It has not been until a few years ago that taxpayer assistance has acquired greater strength as one of the essential functions within the tax organization. Thus, the change of policies of the administration toward this latter aspect has resulted in the focusing of efforts on the use of technological tools and human resources training to promote taxpayer spontaneous compliance, instead of the exclusive use of repressive actions.

However, it is true that not everything is the exclusive task of the entity as such. Rather, a significant part of the facilitation of spontaneous compliance lies in the design of more equitable and simpler tax systems. In this respect, the essential or primary processes defined are: Collection, Examination, Determination/Assessment, Legal or Appeals, Recovery and Taxpayer Assistance.

On their part, the support or aid functions or processes are aimed at filling in the human resources needs, as regards the latter’s selection and technical training for carrying out the primary functions, the provision of physical resources, obtaining and processing the information provided by the taxpayers themselves or third parties for a greater and better control of compliance with the obligations. Likewise, an important aspect in the support tasks is planning and control of the administration’s management through the elaboration of organizational plans and the design of measurement systems that may act as feedback mechanisms at the internal and external levels of the organization. Among others, the support processes defined are: Strategic Planning, Human Resources, Tax Computerization and International Cooperation.

The latter has become an effective way of expanding the scope of action of the administration through international administrative assistance that may allow for exchanging information, with a view to obtaining data on taxpayers carrying out transactions beyond the country's borders, for example. As suggested by some models of information exchange agreements, such as the one designed by the ⁴Inter-American Center of Tax Administrations – CIAT through the working group on information exchange, there is even the possibility of undertaking examinations simultaneously as well as abroad. As a result of the expansion of the administrations' action framework mutual administrative assistance agreements have been signed, for pursuing the collections of tax debts even outside the borders of the country.

The substantive as well as support processes have undergone a significant evolution throughout the past decades, especially since the mid-80s. Actually, systematization has allowed the tax administration greater speed and effectiveness in the management of information.

The possibility of improving information management through automation renders the administration capable of producing reports and data that facilitate the collection, control and recovery processes, for example.

Likewise, the changes and advantages of technology have also been applied within the organizations and through the support processes it has been possible to better control the work of the organization.

In spite of all the positive aspects proven following the introduction and use of technology as a key factor in the improvement and modernization of “the tasks”, old and new problems have arisen.

- Information management capacity continues to be a weak point of the administration. Such capacity ranges from the very management of large data bases that are not fully used to advantage, to the quality of the information introduced and obtained therefrom.
- The administration's slow adaptation to the challenges and needs posed by the national and globalized world.
- The complexity of the rules involved in the development of the tax system also renders complex the development and management of the processes.

⁴ Model developed by the Working Group on Information Exchange; the Manual for supporting the implementation of the CIAT Model is currently being concluded.

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- The little standardization and lack of harmonization of the processes renders difficult their development and affects the trust of the administration and taxpayers on increasing the probability of discretionary, non-harmonized actions.

ii. ORGANIZATION AND STRUCTURE

The organization and structure are the means whereby the administration may fulfill its institutional mission inasmuch as they contribute the operational and resource scheme for the adequate development of the processes. The organizational forms of the tax administrations have also been the subject of evolution through time. Although the administrative structure was not initially considered one of the priority aspects to be taken into account by the leaders of the tax organizations, at present, it has become one of the aspects of greater interest and priority.

This is not so, only from the standpoint of the organizational forms that must be adopted, but also, as a result of the introduction of modern management concepts that may allow the officials increased effectiveness in the performance of their functions through the definition of responsibilities and roles and by promoting teamwork and the formation of leaders.

Coordination, division and integration

A structure involves three fundamental conditions: the division of the work into specific tasks and the coordination and integration among those tasks. These three factors may be combined when determining the strategy for ensuring compliance with the different functions of the administration and the obligations of the taxpayer. The most relevant aspects of each of them will be highlighted below.

Coordination:

Mintzberg⁵ mentioned five coordination mechanisms that seem to explain the fundamental ways in which the organizations coordinate their work.

⁵ Mintzberg, H., Structure in Fives, designing effective organizations, Prentice Hall, New York 1983.

These should be considered as the basic elements of the structure, that is, those that keep the organizations together, including the tax administrations.

- **Communication.-** Tasks are adjusted through constant feedback among members of a teamwork for contributing suggestions as to how to do them better.
- **Direct supervision.-** having clear and timely instructions allows the individual to know what is to be done, to do it in the manner indicated and to constantly improve his work.
- **Standardization of processes.-** How the work should be done. The contents of the work is clearly specified and scheduled. Standardized processes allow the person to speedily and securely carry out the tasks, to thus avoid being subject to improvisation and last minute instructions.
- **Homogeneity in the results or products.-** What is to be done? The results of the work are homogeneous so as to allow for maintaining optimum quality levels and harmonized results.
- **Assignment of tasks according to skills.-** Who is best qualified to carry out the task or respond to the profile. Being aware of the requirements beforehand, in terms of knowledge and/or skills for carrying out a task, allows for assigning the best qualified individuals for carrying it out.

Mintzberg says that as the organizational work becomes ever more complex, the favorite means of coordination vary and may result in greater or lesser emphasis of one or another element of coordination. The process becomes a cycle where there is mutual feedback, which results in an adjustment of the processes and persons that are responsible for them. This may imply the redesign of a procedure and the relocation of an official in a job that may be better adapted to his profile. This should be the dialectics prevailing in the organization as opposed to improvisation.

Division

Is the assignment or distribution of the work in a specialized manner, where there is no integration of tasks or functions among them or those responsible for executing them.

Integration

Integration is the opposite of the division of the work; in other words, tasks are grouped and not separated. Integration may occur at the level of information, functions and resources.

iii. EVOLUTION OF THE TAX ADMINISTRATION

The development of the tax administration is closely linked to the development of the State, of the economy and the cultural behavior.

Initially, the role of tax organizations was more passive than active, as regards the development of their activities. They were closed organizations, not very modern and conceived as entities in charge of collecting the taxes administered, without much consideration for the taxpayer as such. Obviously they were a reflection of the tax system that was being applied.

Subsequently, changes in internal and external economic events have led the countries to reconsider their economic policy and, accordingly, tax schemes. Globalization and the introduction of technologies have led the countries to a broader way of thinking, considering their geographical and world and not exclusively their national environment. Undoubtedly, this has also affected the tax administrations. Issues such as electronic commerce, agreements to avoid international double taxation, for example, were unheard of years ago. An administration that went beyond the borders of the very countries and much less the possibility of carrying out joint operations with other administrations was inconceivable.⁶ The administration became aware that its taxpayers no longer carried out operations in the same manner or in a single place and therefore, it had to adapt itself thereto.

⁶ CIAT-Pita, Claudino, International Taxation Module.

Likewise, the organizations have had to assume a more active role in carrying out their functions. The availability of greater and better means poses new and more complex challenges. They have also understood that taxpayer assistance is a fundamental element in obtaining information and ensuring collection at a lower cost, in terms of time and human and physical resources used. Timeliness in exercising control and the technical capability of their officials for implementing it have become determining factors in measuring the efficiency of current administrations.

The way a tax administration is organized is not a matter of fate through time. Organizational forms have evolved along with the tax administrations, adopting forms and establishing priorities in keeping with the country's tax policy and those which the administration itself has determined for fulfilling the objectives provided in said policy

Although it is true and it cannot be said that the characteristics or stages of such evolution and accordingly, the structural forms adopted have been the same in terms of simultaneity and similarity for all tax administrations, there have actually been trends that have determined the preferential application of a model over others, especially influenced by the success had in applying such model in a specific country.

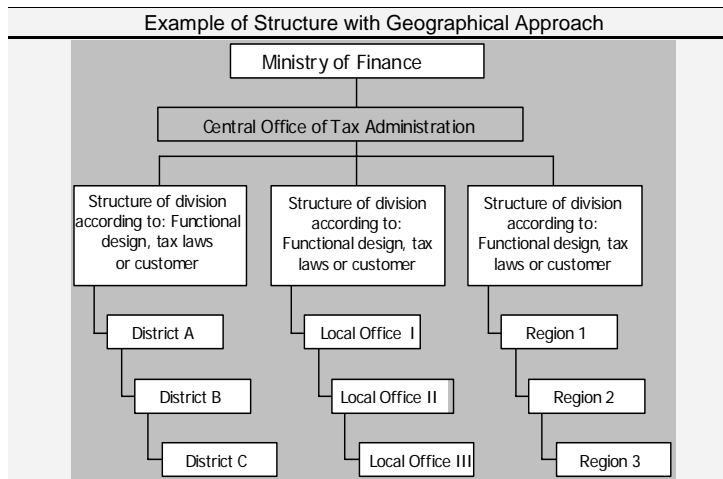
It cannot be said either that the models to be analyzed below, considered from different viewpoints or approaches, have been strictly applied as defined herein. Undoubtedly each administration has taken into account its own peculiarities for adjusting one or other design to its needs and conditions and definitely, the schemes adopted by current tax administrations are a combination of one or several elements of these models.

We are now going to mention some of the models or approaches used in the structures adopted by some tax administrations of the CIAT member countries. To this end, we will refer to the CIAT Tax Administration Manual and to the tax information system used by the Center.

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Geographical approach

Many tax administrations throughout the world have designed parts of their organizations according to the geographical approach. This is the most common form which allows an ideal combination with other structural forms. The following graph shows a possible structure with geographical influences.



Tax administrations are limited by the geographical situation of the country. Due to their size, countries like Brazil, Mexico, Argentina, Canada and the United States are forced to structure their tax administrations according to their geography. It is useful, at times, to compare the ratio between the structure of the administration and the geographical circumstances of a specific country. These ratios could be used as parameters to determine the number of officials that could be assigned to a specific function. Shown below are some examples of those ratios:

Customs could be compared with respect to:

- limits in kilometers / number of customs officials;
- total value of imports and exports / number of customs officials;
- complexity (open or closed economy and number of partners / number of customs staff members

The comparison of ratios between tax administrations and individuals and corporations could be based on:

- area / number of officials;
- population / number of officials;
- businesses / number of officials;
- number of assessments / number of officials;
- number of audits (and their duration) / number of officials;
- gross domestic product (GDP) / number of officials;
- tax revenues / number of officials;
- budget for the tax administration / tax revenues (= value of expenditures);
- total number of public employees / number of officials.

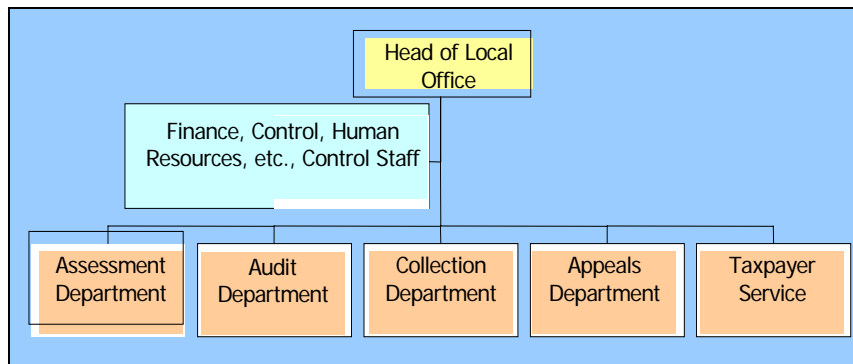
Although these ratios will not provide an answer as to the perfect size of a tax administration, the comparison may give an idea as to the margins within which the size of an administration may vary.

Canada, Colombia and Italy may be considered examples of tax administrations using a geographical approach.

Process and Functional Approach

Very frequently, tax administrations assume all the tasks derived from their primary general responsibility: assessment, examination, recovery, appeals/legal and taxpayer assistance of the tax system they administer. This broad organizational method is logical: it guarantees great internal cohesion, since all of the operations are carried out within the administration, that is, from the identification of the taxpayer up to the recovery of the money. Of course, the fact that all these functions are carried out within the administrations does not imply that every official may carry out all of them. Operational units may be relatively specialized; however, all necessary functions depend on one single management center.

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Functional process and approach

Less frequently, various functions dealing with tax management have been separated in order to render specialized some operational areas of the administrations. Worth mentioning as examples are: the tax recovery, investigation or specialized examination and customs units.

Recovery specialization

Recovery is based on a series of techniques and procedures that are relatively indifferent to the nature of taxes: verification of claim, notification in the case of nonpayment, application of sanctions for delay, recovery action with or without judicial intervention, payment plans or agreements.

This lack of technical specificity (that is, lack of any relationship with the nature of taxes) results in tax recovery being focused on a single administration for all types of taxes, even though they are assessed and audited by other administrations.

What are the benefits of this type of specialization?

The centralization of tax recovery allows some savings in financial administration costs and renders profitable the use of modern payment methods (optical character recognition, bank transfers, etc.). In addition, it affords the recovery office a general overview of a taxpayer's situation as regards all his tax debts and thus facilitates the defense of the financial interests of the State. It may also authorize the compensation of different taxes for a given taxpayer.

Investigation specialization – intelligence units

The functions involving intelligence and struggle against the most serious forms of tax evasion on occasions are transferred to what have been called financial investigation departments or Tax Intelligence areas.

An investigation department may have responsibilities in the following areas:

- tax investigation (tax evasion);
- financial investigation (money laundering, an internal official negotiating in the stock exchange, etc.);
- economic investigation (import or export of forbidden goods, abuse of the trademarks of goods, ACT, etc.);
- criminal investigation;
- the intelligence area works jointly with other organizations: customs; police; government attorney's office, units in the tax administration (recovery, auditing); foreign investigation departments.

What are the benefits of this specialization?

A tax intelligence unit allows for establishing specialized teams in the struggle against economic and tax delinquency, where all the necessary abilities and skills are combined in the same unit.

What are the limits to this specialization?

On occasions, the financial investigation unit acquires greater relevance over the other units, thus obtaining greater and better resources for carrying out its tasks. That is, it becomes a "super" area that may easily originate conflicts with other areas, which is detrimental to the effectiveness of the very administration.

The tax intelligence unit must be specifically located under some range of authority in the tax administration and its powers, functions and ways of interacting with other areas of the organization must be clearly defined.

Audit specialization

Many countries have special audit units, departments or offices. The reason is obvious: the tax administration wishes that its organizational structure support one of the main aspects of the essence of its business. The audit process is less vulnerable if audit specialists are gathered in a single team. On the other hand, an audit team carries the risk that the auditor may lack information from the taxpayer assistance, assessment and recovery departments, which may imply a problem of coordination in the organization. However, based on the current trends and tendencies imposed by the economy, specializations have been established in accordance with the type of economic activity carried out by the taxpayers. Therefore we may find audit departments specialized in the financial sector, in the industrial sector, etc. The case of the Secretariat of Federal Revenues of Brazil is one example of this.

The customs and internal taxes merger

Even though the Brazilian tax administration merged these two areas a long time ago, it was not until the 90's when there began a marked trend, especially among the Latin American tax administrations to merge the internal taxes and customs areas. The reduction of administrative costs and the possibility of an integral control through the management of information originating from two important sources have been powerful reasons for politically deciding to operate under a single organizational structure.

However, even in site of this trend there has been the need to separate the two areas within the same organizational scheme. This allows specialization by functions or substantive processes that are common to each of them, through the development of specific and particular units, on the one hand, and the integration of those functions or processes that afford the administration greater control and managerial capacity, on the other.

Such specialization by functions or processes, differentiating customs from internal taxes appears to be the most successful, inasmuch as each one of the action policies for each unit may be carried out, thus respecting the mission and strategic objectives existing in a merged organization.

Those cases where there has been excessive centralization or segmentation of customs or tax functions have not been effective. In other words, disregarding the essence of each of the “businesses”, that is tax and/or customs is equivalent, in one way or another, to eliminating the advantages of the merger of both organizations.

Approach Based on Tax Laws or Type of Taxes. State Taxes, Customs Duties and Excise Taxes and Social Security Contributions.

There is a broad pattern of tax administrations specialized according to various types of taxes. Many countries have an administration specifically devoted to state taxes (on occasions, several administrations, depending on the indirect or direct nature of the taxes), an administration specialized in customs duties (which frequently covers excises taxes and less commonly—in Great Britain and the Netherlands Antilles—VAT) and, some times, one or more agencies in charge of social security contributions. Generally, these administrations assume all tax functions related to a type of tax.

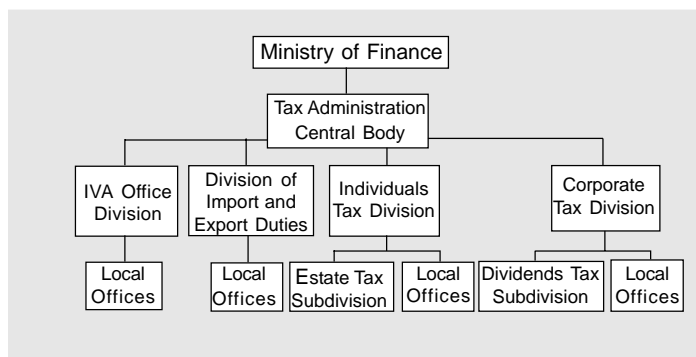
This organizational structure based on types of taxes has many benefits. Some of these are the identification of a specific group of taxpayers, generally, a rather homogenous group that renders it easy to get to know them, facilitates an understanding of the tax system and allows the adaptation of the geographical position of the local departments to the types of risks. In particular, administrations specialized according to types of taxes facilitate the integration of tax recovery and auditing. The efficiency of the close integration of these two functions has been proven in taxes such as VAT, which are estimated and paid by the taxpayer.

There are also some disadvantages in an organizational structure according to types of taxes. First of all, it may turn out to be rather costly. Even though the various tax administrations have a general identical purpose—the collection of tax revenues – when specialized according to types of taxes, the structure tends to maintain several parallel hierarchies, including levels that are not directly operational. That is, on occasions it is necessary to create a small administration for each type of tax. According to the taxpayer, who must frequently depend on several different administrations, this is an obvious source of complexity: multiple contacts and different procedures lead to the speedy increase of administrative costs. On the other hand, there may be dispersion and lack of unity in the criteria applied to the case studies and accordingly, in relation to the taxpayer himself.

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In fact, the most strict specialization forms according to types of taxes are diminishing, while tax functions are ever more being grouped in multipurpose entities. For example, there have been mergers of departments that were previously specialized according to the indirect or direct nature of taxes (this occurred in France in 1970 and in Italy in the 90's).

As we saw before, some countries (Argentina, Brazil, Colombia, Guatemala, Honduras, Mexico, Netherlands, Netherlands Antilles, Peru, Spain and Venezuela, among others) have expanded this structure to cover tax and customs administrations, a radical solution to promote the closest possible relationships between the two areas. In some cases, even aspects dealing with social security contributions are under the same organization, as is the case of Argentina and recently, Brazil.



Approach based on tax laws

Approach according to type of taxpayer (customer)

Due to the special handling or priority that may be given to a group of taxpayers as regards the importance that should be attributed to assistance and control to a specific group of taxpayers within the organization, this approach has also been called customer-oriented organizational model or approach, considering the taxpayer as the customer which the tax administration must assist and control. As previously mentioned, the modern conception of establishing a greater rapprochement to the customer rather than his repression, seeking to increase the levels of spontaneous compliance, has given origin to this form of organization, on bringing from private business practice, successful theories as to how to achieve greater levels of efficiency from the organizations.

Even though the previous approach has many advantages and positive factors, undoubtedly, in my opinion, the fact of naming and establishing a similarity between customer and taxpayer within the tax administration is not appropriate. For this reason, I have entitled it approach according to type of taxpayer. It is not merely a change of name, but rather the scope which the term “customer” may have or acquire within the administration. Without taking into account the circumstances and conditions which the taxpayer has toward and in the tax organization, the condition of customer cannot only be based on the need to provide him assistance and services to facilitate compliance with his obligations, respect his rights, as well as in the administration exercise of the right to control and review, but rather in a series of characteristics and connotations that are common to private commercial practice that are not applicable in this case.

Some organizational structures depend on the specialization of some areas in one or several specific categories of taxpayers. *Such categories may include, for example, different types of taxpayers (individuals or corporations), different sizes (large or small businesses), or different types of activities.*

The idea behind each type of specialization is always the same: thanks to their greater knowledge of the behavior of the taxpayers and a smaller number of laws and procedures they must be familiar with, the specialized areas will achieve a greater level of efficiency in dealing with some groups of taxpayers having significant budgetary interests or specific types of risks.

One example of an administration that adopts the structure according to the type of taxpayer or customer approach is the U.S. Internal Revenue Service, which changed its structure since 1998, on creating four administrative units oriented toward four different types of taxpayers, namely: - Wage earners and Investors; - Small Businesses and Independent Workers; - Large and Medium-Sized Businesses and – Exempt and Government Entities.

A special comment should be made about the change in structure of the Dutch tax administration that took place a short time ago. Traditionally, until the year 2003 it had been using a customer approach based on the Target Group system. However, starting in 2003, the Dutch tax administration changed its structure, making it flatter, and preserving the target group approach as starting point, although using the processes approach as organizational framework for the

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administration. Its orientation toward customers continues to be important, but this does not mean that it must necessarily be reflected in the organization's structure. Thus, experience taught them that it was necessary to differentiate between the service and control and supervisory processes and accordingly adopt a structure that would allow for implementing them in an optimum manner.

A common example of Specialization is the creation of a specific organization of the tax administration for Large Taxpayers.

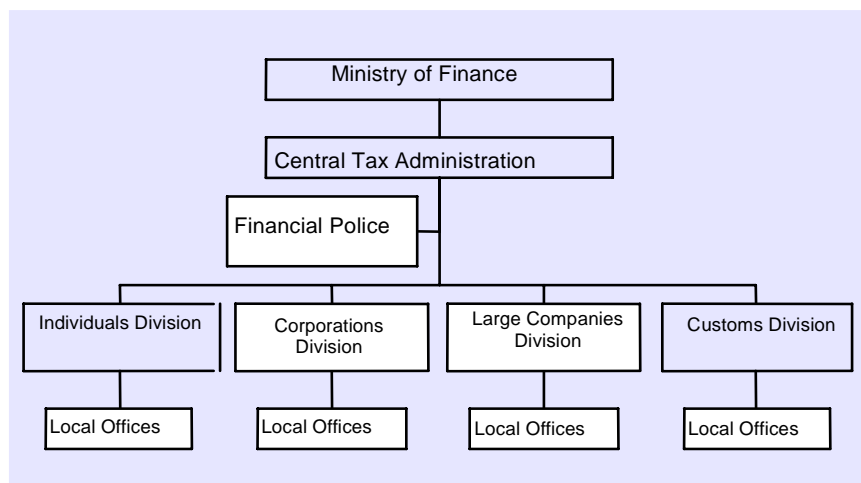
Some countries (many of them members of CIAT) have opted for tax departments specialized in large companies. For a tax administration, the efficient management of these companies is an aspect of strategic importance. This is so, in the first place, because of their financial weight in the State's budget and likewise the need to be able to offer these large companies—that are important for the economic health of a country—the legal assurance they need to fully carry out their activities.

- Such specialization may be total. In that case, a single tax department follows up the obligatory tax returns, the collection of taxes owed, tax auditing and taxpayer services for large companies, regardless of their geographical location within the national territory. This is the case of SUNAT of Peru, which has an Intendance in charge of the Main National Taxpayers.
- Such specialization may likewise be only partial. That is, only some of the processes are carried out by this specialized area: examination. This may be the case of the General Directorate of Internal Taxes of El Salvador, for example, where the structure of the Examination Directorate responds to a combination of approaches: specialization in large taxpayers which involves large and medium ones and a regional approach.

Benefits of this approach: large companies have very marked characteristics from the tax standpoint. They are not so numerous and are therefore easy to verify. They represent an extremely important part of state revenues and are generally better organized than the small businesses. Likewise, they frequently resort to more sophisticated fiscal measures and may have international economic relations. In that case, it might be interesting to provide the Treasury some

assurance of a significant part of budgetary revenues, by concentrating a relatively small percentage of human and technological resources of the tax administration in the management of large companies.

Limits to this approach: this specialization strategy seems to offer little disadvantages. However, this implies the need to attract the best officials to a tax administration specialized in large companies and likewise calls for an adequate compensation policy. In addition, if the national territory is extremely vast, the fact that the tax department for large taxpayers is located in a particular area may cause some difficulties for taxpayers that are far away. In such case, it is always possible to divide the tax department for large companies into smaller geographical areas.



iv. THE CURRENT SITUATION IN THE CIAT MEMBER COUNTRIES

The following table provides a general overview of the current organizations in the different CIAT countries. For additional details, refer to the CIAT annual publication entitled: "Organization of the Tax Administrations in the CIAT member countries"⁷ and to the taxation data base appearing in the organization's Web page.

⁷ CIAT Review 98-99.

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CIAT Members	Central level			Operational level			Merger with customs	Large companies unit
	f	t	c	f	t	c		
Argentina	x			x			x	x
Aruba	x	x		x			x	
Barbados	x			x				
Bermuda				x				
Bolivia	x			x				x
Brazil	x			x			x	
Canada	x			x			x	
Chile	x	x		x				
Colombia	x			x			x	x ⁸
Costa Rica	x			x				x
Dominican Rep.	x			x				x
Ecuador	x			x			x	
El Salvador	x			x			x	x
France	x			x				x
Guatemala	x			x			x	
Haiti	x			x				
Honduras	x			x			x	x
Italy	x			x				
Jamaica	x	x		x				
Mexico	x			x			x	
Netherlands Antilles		x			x		x	
Netherlands	x			x			x	x
Nicaragua	x			x				x
Panama	x			x				
Paraguay	x			x			x	x
Peru	x			x				x
Portugal	x	x		x				
Spain	x			x			x	x
Surinam				x			x	
Trinidad & Tobago	x			x			x	
U.S.A.			x	x		x		
Uruguay	x		x ⁹	x				
Venezuela	x			x			x	

Approach of CIAT countries

f = functional approach t = tax law approach c = type of Taxpayer approach

⁸ There is a Large Taxpayers Unit only in the country's capital.

⁹ The General Directorate of Taxation (DGI) of Uruguay has at the central level, some characteristics of customer approach, since there are some departments for specific target groups (auditing for: industrial sector; commerce and agriculture and livestock).

Based on this overview some **conclusions** may be reached:

- most of the countries have their own typical and clear organizational design based on functions. The functions recognized are generally: auditing; recovery; taxpayer assistance and service, legal or juridical affairs and registration. There is the same type of functional division at the central as well as operational levels. The advantage is that specialists can very easily locate each other at the different levels of the organizations. Another advantage is the transparent structure that assists the superior managerial level in stimulating the organization (from top to bottom);
- a few countries (particularly in the Caribbean region) have central directorates for indirect or direct taxes (on occasions, even VAT or individual income tax directorates). Generally, these directorates provide guidelines for auditing and assessment processes;
- the type of taxpayer approach - (Customer approach) continues to be an exception as general structure of the organization. Rather, it is frequently partially adopted through the creation of specialized areas for the management of large taxpayers. At present, the best example of a 100% customer or type of taxpayer approach is the Internal Revenue Service of the United States of America.
- it must be noted that in most cases, reality is more complex than the written models. We see a combination of many types of organizations where the functional, geographic and type of taxpayer models are particularly involved. The tax administrations of the English-speaking countries such as Trinidad and Tobago, Barbados and Bermuda tend more toward a type of tax approach.

V. Organizational Schemes: Existence and Responsibility of a Central Body

A fundamental aspect in the tax organization is the existence of a central body, whose level of autonomy or dependence will be based on the level of autarchy given to the tax administration. The central body of the tax administration is the interconnection unit between the political

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and operational decision-making offices. In general terms, it is the responsibility of the central body to design the tax administration's strategy. The strength or weakness of said organization, its effectiveness or inefficacy is obligatorily reflected in the administration's management.

The activities of said central body may be probably focused in the following aspects:

Definition of the strategic orientation: **Where is the administration headed**, by establishing priorities according to the strategic objectives determined for the administration.

Establishment of working methods and procedures; **How are we going to do it.** This aspect is of utmost importance since it guarantees homogeneity in the methods and procedures used in each of the regional offices of the administration. If those elements are not defined, there may easily be chaos, since it is left to the discretion of each official or officials in charge to indicate not only to his team but, to the taxpayer how it is to be done.

In some administrations this takes place more frequently than desired. The taxpayer is left at mercy of the "legislation" of the official on duty and has to adapt to the variations that each of them may make. In addition to affecting the legal security of the administration's actions, it may also act as a mechanism for promoting or encouraging corruption.

Distribution of resources; What is needed to carry out the tasks or activities. In many countries, the operating budgets of the administration are quite meagre, and their optimum distribution and use allow a more efficient support for carrying out the functions. The central office acts as general coordinator in financial issues, since it must be aware of what and how much the sectional offices need. In this sense, it is important that there be a permanent interrelationship at the two levels: central and regional, to adapt the needs to the current realities, whether they are of an ordinary or extraordinary nature.

Monitoring of results: How are we doing it. Permanent supervision and feedback afford the opportunity of confirming the procedures, methods and strategies determined or to adjust them to the circumstances and challenges arising in an integral manner. Through this global vision of

the organization's behavior the central level officials may be aware of what is happening and what may affect the expected results, so that with their support, they may contribute to timely prevent or correct some situation.

Definition of maintenance actions for the decentralized functions; How does decentralization work? Decentralization is a mechanism requiring constant surveillance and review. It is very easy to grant too much or too little authority or to want to recover it. Maintaining an ideal balance, where regional officials may acquire security and trust to lead the processes through responsible decision-making is not easy. Therefore, central offices must constantly interact with the regional ones to analyze the evolution of the decentralization process. This may be done by institutionalizing the system maintenance mechanisms. For example, periodic evaluation and support meetings.

Public relations; relationship with the public. Management of relationships with individuals outside the organization is important. Whatever is said and done is very important and therefore due care should be exercised in who, what, how and when it is done.

Face political demands; Spokesperson of the organization. Relating with politicians is a daily reality within the context of the administrations. These may range from the provision of information up to the request for appointing recommended staff. The central office should face all these requirements and not the regional ones, mainly because the latter should concentrate on carrying out their functions for achieving the goals and not deviate from its priorities. Secondly, the central office should be in charge of leading political aspects at all levels of the tax administration.

Advise the superior administrative level and politicians in charge with respect to the implementation of new legislation. Feedback to upper levels. Central office officials, generally the general director, should keep its superiors, ministers and deputy ministers and proposers of tax bills or reforms to the organization, as to the needs, strengths, advantages and disadvantages of the issues provided in the proposed legislation. No other person is better qualified than a high level official of the tax administration to know about the problems or achievements in the application of rules and what needs to be adjusted or may remain unchanged.

Organizational trends: Greater autarchy

Tax Administrations tend toward greater autonomy in order to have available adequate resources for its needs and protect themselves from direct political interference. For a better allocation of its scarce resources, they are ever more recurring to the outsourcing of certain specific responsibilities.

Throughout the past years there has been a trend in the member countries of CIAT to undertake reforms in their tax administrations, aimed at achieving a better administrative and budgetary autonomy. Most of these organizations have traditionally been dependent on the ministries of finances and/or treasury of each country. However, at present, as we may see in the following table, some of them have become autonomous institutions with budgetary independence, whereby they may avoid interference in the making of decisions such as, for example, the selection and appointment of qualified staff and investment in physical resources that may facilitate compliance with their essential or support functions. In view of this greater administrative and financial autonomy the tax administrations may adjust themselves and may better and more rapidly respond to changes taking place on a daily basis. Subjecting itself to processes and procedures that are common to the public scheme can easily make it slow and inefficient. Nevertheless, one cannot disregard the great responsibility resulting from a greater autarchy because ultimately, the monies of these same taxpayers are the ones that should be directly and clearly devoted to implementing the action policies of the administration, without the slightest doubt about its management.

In general, such greater autarchy has occurred in relation to:

- Budgetary autonomy: the tax administrations have their own budgets, which they can administer autonomously according to the legal frameworks. They may originate, generally, from the same budget annually allocated to each government entity from the State's large fund, or else, be part of a percentage of the administration's own management, based on the previous fiscal year and which may originate from the largest amounts or sanctions assessed or actually applied. There is also autonomy in the administrative contracting system for the provision of the necessary goods and services for carrying out the tasks.

- Administrative autonomy: Regulation of its own staff selection and promotion processes; of its own and specific administrative career for tax officials (including customs); of a special nomenclature of positions, of a particular and specialized salary system; and a disciplinary regime or system adjusted to the profile and business of the organization.

COUNTRY	NAME AND RULE IN FORCE	JURIDICAL NATURE
Argentina	Federal administration of Public Revenues - AFIP. Decree 618 of July 10, 1997	System of administrative and functional autarchy, under the general superintendence of the Ministry of Economy and Public Works and Services
Bolivia	National Tax Service - S.I.N. Act 2166 of December 22, 2000	Autarchy with administrative, functional, technical and financial independence.
Canada	Canada Revenue Agency - Canada Customs and Revenue Agency Act, effective November 1, 1999	The Canada Revenue Agency is under the Ministry of National Income, as of November 1 st , 1999, it ceased to be a governmental department to become a separate operational agency
Ecuador	Income Tax Service. Act 41 R.O. No. 206 of December 2, 1997	Administrative, financial and operational autonomy, with public law juridical personality, net worth and funds of its own.
Guatemala	Superintendence of Tax Administration - SAT. Decree 1-98 of January 12, 1998	Decentralized state entity with functional, economy, financial, technical and administrative autonomy, as well as juridical personally, net worth and resources of its own.
Honduras	Executive Directorate of Revenue. Decree 159 of November 4, 1994	Decentralized body of the State Secretariat at the Finance and Public Credit Offices and within the limits of the Law, with administrative, technical and financial autonomy.
Mexico	Tax Administration Service. Act of the Tax Administration Service. O.D. December 15, 1995, in force since July 1 st , 1997	Decentralized body of the Secretariat of Finance and Public Credit, with the capacity of tax authority, managerial, budgetary and technical autonomy
Nicaragua	General Directorate of Revenues - DGI. Act No 339 of March 9, 2000	The General Directorate of Revenues (DGI) is a decentralized entity with its own juridical personality, which enjoys technical, administrative and human resources managerial autonomy.
Peru	National Superintendence of Tax Administration - SUNAT. Act 24829 of June 7, 1988	Decentralized public institution of the Economy and Finance Sector. Public Law juridical personality, net worth of its own and administrative, functional, technical and financial autonomy
Spain	State Agency of Tax Administration - AEAT. Act 31/1990, of December 31.	Public Law Entity with juridical personality of its own and full public and private capacity. Administrative, functional, operational, management and financial autonomy

Source: CIAT

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The evaluation and analysis of the experiences of the CIAT member countries in both aspects: autonomy and outsourcing are important for other countries, whether they are already carrying out these actions or endeavor to carry them out in the future, in order that procedures, mechanisms and limitations may be formulated.

Trends toward decentralization

Apart from these challenges, the functions of the Tax Administrations will also be affected by current trends toward **state decentralization** and privatization. As sub-national governments continue to acquire greater tax autonomy, there arises the question with respect to the entity that should administer the taxes of the sub-national entities, and how the Tax Administrations at the central and sub-national levels must coordinate their activities.

An interesting proposal at this level is made by José Sevilla Segura¹⁰ when he says: "...if its operation is considered on the basis of economic rationality parameters, there will be a natural trend toward the establishment of coordination mechanisms between the different finance offices, – central, regional, municipal—, whose *desideratum* would be the creation of an **integrated tax administration**, capable of offering tax management services to all Finance offices.

Accordingly, the use to advantage of economies of scale that allows a well structured Tax Administration may be imagined as a path that could be undertaken in the establishment of collaboration mechanisms between independent Administrations until arriving at the creation of an integrated Tax Administration in the sense indicated".

An example of the application of this criterion of economic rationality is the consideration that has been made by some regional and/or municipal administrations with respect to obtaining and using information. Traditionally, national or federal Finance Offices have experienced a greater evolution as regards their organizational structure and the performance of their functions. This has led them to achieve higher levels of efficiency with respect to quantity and quality of the information obtained from the taxpayer and third parties obliged to provide it. Therefore, the second level organizations whose common

¹⁰ Sevilla S. José V., *The Integration of the Administration of the Tax System* - 28th CIAT General Assembly, Quito, 1994.p. 322-323.

information requirements are similar to those of centralized entities have resorted to strategic alliances with the latter in order to obtain more information on those taxpayers and their operations and thus be able to exercise a better control. Undoubtedly, this saves time and economic resources and increases the efficiency of control and the very service provided to the taxpayer.

Outsourcing: This is an extremely complex issue. There may be a great variety of reasons for “privatizing” certain activities. The motivation may be political or ideological in nature: creation of a civil service that may be reduced and economic. The motivation may also be that a Tax Administration does not operate effectively or efficiently, or is incapable of attracting sufficient resources or qualified staff that may allow it to fulfill its responsibilities within the broader framework of budgetary and staff restrictions of the national government. A very common opinion is that, even though many Tax Administration activities could be privatized, one function –the power to determine the tax obligation— should continue to be an exclusive right of the Tax Administration. Even though a number of support functions may be privatized without great risks, this is not the case of the real essential activity. In relation to this type of activities, however, lessons may be learned from the private sector experiences through the use of reference points (benchmarking).

The Role of CIAT in Strengthening the Management of the Tax Administrations

The Inter-American Center of Tax Administrations is an international, nonprofit organization of a public nature, whose mission is to provide an integral service for the modernization of the tax systems and administrations of the member countries, to facilitate their evolution, social acceptance and consolidation.

Since its inception, CIAT has been concerned about being a dynamic organization going beyond the proposals, borders and trends of a specific time or period, adjusting and adapting itself to the challenges imposed on the countries in the area of taxation.

Thus, it is aware that the design and administration of the tax system are undoubtedly areas within the public sector deserving priority attention and strengthening on the part of the various governments, inasmuch as public revenues of a tax nature are the essential source of financing of every democratic society.

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Likewise, because everyone's contribution to the extent of his capacity is in the very essence of the "Social Contract" which gave origin to the State, and promotes, together with the public expenditure policy, a better distribution of income in the struggle against inequality: and additionally since it constitutes an instrument of democratic institutionalism at the service of juridical security, policy, stability and social equity and because the design of the tax system and its tax administration are strategic aspects of modern states, the Center has aimed its efforts toward the strengthening of the tax administration through the same value added it obtains by means of its interrelationship with its member countries.

CIAT, then, as stated by its Director of Operations in the document on Strategic Planning¹¹ of the Organization *is an entity created to share among its members, knowledge, experiences and best practices in the tax area.*

Therefore, continuing with the proposal elaborated by Mr. Gutierrez, CIAT should, as strategy: "Render operational the collective knowledge of the member countries. That is, to ensure that the knowledge, experiences and best practices become concrete products which may be applicable and applied in the tax administrations and tax systems of the member countries".

In sum, CIAT has understood that information management constitutes the backbone in the development of products and instruments that may serve to improve and develop modern, efficient and transparent tax administrations.

Therefore, the design and elaboration of useful models that may consider and define the latest cognitive and technological innovations in specific subjects or issues based on the successful experiences not only of its tax administrations but also of other organizations or institutions; the technical assistance in the implementation of said models and continuous feedback as a permanent adjustment and improvement instrument, are elements that define and develop the Center's own strategy.

¹¹ Document on CIAT Strategy elaborated by Nelson Gutierrez, Director of Operations of the Center which correctly defines what the Center must do and how to do it.

Examples of the above are: the Tax Administration Manual, (2000), currently being revised, the Tax Code Model (currently being updated), the Examination Manual, the Model Code of Conduct, the management indicators system, the future Internal Control Manual, the best practices in such areas as Tax Intelligence, International Tax Planning, the Information Exchange Model and the Manual to support the Implementation of the Model; the declarations on the minimum attributes approved by the 30th CIAT General Assembly held in Santo Domingo, Dominican Republic and the Promotion of ethics in the tax administrations approved in Buenos Aires, Argentina in April 2005, in addition to the cooperation projects wherein computerized models have been designed to support the efficient development of the processes.

TOPIC 3

**INFORMATION TECHNOLOGY APPLIED
TO TAX PROCESSES**

Lecture

TOPIC 3

INFORMATION TECHNOLOGY APPLIED TO TAX PROCESSES

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MUISCA Project
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CONTENTS: Introduction.- MUISCA: The Colombian Strategy.- Three Strategic Principles.- 1. DIAN's integrality.- Achieving excellence of operations.- Re-orienting entity towards service.- Consolidating legitimacy and autonomy.- Contributing to the country's competitiveness.- 2. DIAN's wholeness.- Organization and methods.- Mission.- Support.- Technical support.- 3. Viability and transcendence of the DIAN.- Achievements to Date: 1. Strategic achievements of the Model.- 2. Operational achievements of the project and the system.- 3. Future services.

INTRODUCTION

Like any other modern organization, tax Administrations take place within an environment of accelerated and sometimes unpredictable social, economic and industrial changes that influence the way that our organizations face the future, and ensure a steady growth and viability over time. Our "business" consumes information, produces information and must generate knowledge for its customers, which is ultimately the national government.

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The technological management takes on an ever increasing strategic role. Tax administrators must lead technological innovation processes within their organizations, by way of a clear knowledge of the coordinating and collaborative relationship between the technology management and the other areas of the organization, targeted at the performance of the Administration's strategy and the complete fulfillment of its essential mission - service, control, and most of all, tax collection. This entails reviewing in particular the integration of technological processes with other processes of the organization, and acknowledging such integration as a critical and determining factor for the organization's viability.

In this context, the Directorate of National Taxes and Customs of Colombia has undertaken over the last three years the strategy of managing its current affairs with excellence, acknowledging its capacity in an integral fashion, envisaging its potentiality, reducing latencies and increasing its productivity, so that State's revenues are ensured through the development of the Single Model of Revenues, Service and automatized Control: MUISCA (*Spanish acronym*). This model is strongly leveraged by the information technology, its best conceptual practices and open technological schemes, so that they facilitate adapting to changes in the environment and sustainability over time.

Being MUISCA an integral model that establishes organizational, processing and technological aspects as its essential axes, the following lecture illustrates the experience undergone by the DIAN in the process of structuring and developing the model.

MUISCA: THE COLOMBIAN STRATEGY

Ever since the current administrative period of the DIAN started, the Managing Team has been able to take notice of severe structural problems that in turn would originate unavoidable difficulties in the performance of its institutional mission, this last being understood as a proper tax collection, an adequate control and an optimum service.

An objective and thorough diagnosis of the entity allowed to technically confirm the elements considered sufficient to undertake a coherent solution process. Such diagnosis is summarized in the following dilemma:

- High levels of tax evasion, avoidance, smuggling and exchange violations.

- A weak culture of voluntary compliance with tax, customs and exchange obligations.
- Accelerated impairment of the country's customs competitiveness.
- A complex and scattered legal system.
- Lack of the sense of service and customer facilitation.
- Internal deficiencies associated with the organization's staff system and in general with its management system.
- Structural deficiencies in quality, reliability and timeliness of the information required to exercise control.
- Inarticulate IT solutions, captivity of technological platforms and poor sustainability of them.

From the situation implied by these problems, the Entity outlined the following guidelines and purposes:

- The organization's commitment to change.
- To materialize the merger of tax and customs functions around the information.
- To free the administration from any political maneuvering.
- To establish a special and well-remunerated administrative career.
- To improve the State's fiscal efficiency.
- To facilitate compliance with obligations, by simplifying procedures, personalizing assistance and guidance, responding timely to requests and bringing the administration near to taxpayer's rights.
- To steadily increase tax collection.
- To systematically curb the levels of tax evasion, smuggling and exchange violations.
- To guarantee the participation of all taxable persons in the financing of the State's social spend.
- To avoid distortions and inequalities in tax, customs and exchange systems.
- To effectively control officers' management.

THREE STRATEGIC PRINCIPLES

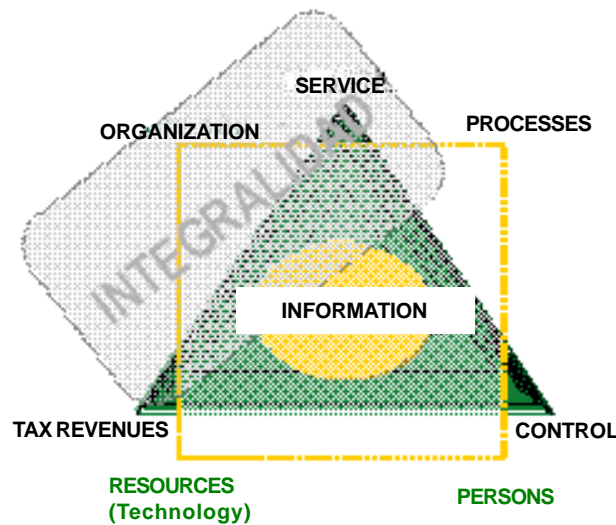
From such guidelines, the strategic principles of the MUISCA are established, which have been essential for defining both the strategy and its development.

Such principles are introduced below:

1. DIAN's Integrality.

This basic principle of MUISCA comprises all institutional aspects needed to take a big qualitative leap, as demanded by the country's constraining needs regarding resources, and as a necessary requirement for the consolidation of the Colombian democracy. Unless there is a strong tax administration, any developing country, such as ours, will find it difficult to generate the life quality required by its citizens, and to become an important actor within the world's economy.

The central aspects of the model are accounted in the following chart, in which the components of the triangle (service, control and tax revenues) correspond to the institutional mission, and those accounted in the square (organization, processes, persons and resources, and technology) cover management, administrative and technological aspects. In the center, we have placed information as the basis for our new model, and all these aspects are finally integrated with an adequate management of processes supported by an intensive use of information and telecommunications technologies.



Within the scope of this principle, four strategic steps are outlined for the DIAN, which articulate the cited components in the following way:

Achieving excellence of operations.

Given the set of game rules, scarce State's resources and the objective of maximizing tax collection according to said game rules, the challenge for the DIAN is one of the greatest within the State management. This challenge is to be assumed intelligently, by processing as much information as possible that may allow the entity to identify all taxable persons and their status within the public treasury.

For that purpose, taxpayers must find easy and transparent transactions that enable them to comply with their obligations, but at the same time, the DIAN must strengthen tax and customs control to guarantee fulfillment of such obligations. In furtherance of such strategy, the DIAN must make its customers feel that they have the support and the advice of the organization when they are in good standing, as well as a sense of immediate reaction with the necessary force, in the opposite case.

Re-orienting entity towards service.

The tax Administration must keep up with the modern citizen, who demands more and better products and services and "at lower prices". In the case of the DIAN, this translates in the vigilance of the strict performance of effective regulations, guaranteeing that each taxpayer should pay exactly what he owes, and that all taxpayers should pay all the taxes that they are bound to pay.

So the strategy must be integral, providing services that facilitate the task for those in compliance, and having the adequate tools to reduce significantly evasion, smuggling and exchange violations.

This entails reorienting the organization, its processes and its people towards service, enhancing customs control operations, managing the tax collection network, as well as optimizing, speeding up and making more flexible such logistic processes that underpin the entity's management.

Consolidating legitimacy and autonomy.

Over 80% of revenues collected by the DIAN come from voluntary (or induced) compliance of obligations by taxpayers. Likewise, payment of taxes is one of the main moments in which the citizenship is in contact

with the State. The outcome of this transaction is essential to determine the present and future attitude of the citizens regarding their contributive responsibility and their feeling for the State.

Even though the DIAN is not responsible for the State's general management, it does serve as a vehicle to communicate its results, especially to those citizens that have contributed with their tax payments. It must become a role model of a good management and transparency for the citizenship, not only as to the management of its resources and its management at large, but also as to the services rendered, the transactions performed and the fair and objective application of the regulation. This involves fighting face to face against corruption, and creating the effective mechanisms that may allow to hedge against it.

It is about strengthening the institutional image, so that the citizenship and the State may trust it more each day, and so that accesses is allowed to more resources targeted at making possible to sustain and strengthen investment in it.

Contributing to the country's competitiveness.

Because of its nature, the DIAN is an entity having a great impact on national competitiveness. The way it guarantees compliance and consistency of game rules associated with the tax, customs and exchange systems is essential for (national or foreign) investment expectations, the competitiveness of foreign trade operations and the reduction in time and costs related to the compliance with obligations.

For this reason, the adequate balance among facilitation and control, legal security and unity of criteria are priorities for the DIAN, which, combined with the pursuance of a simplification of the laws and a pro-active planning of legislative changes, should collaborate to the competitive development of our country.

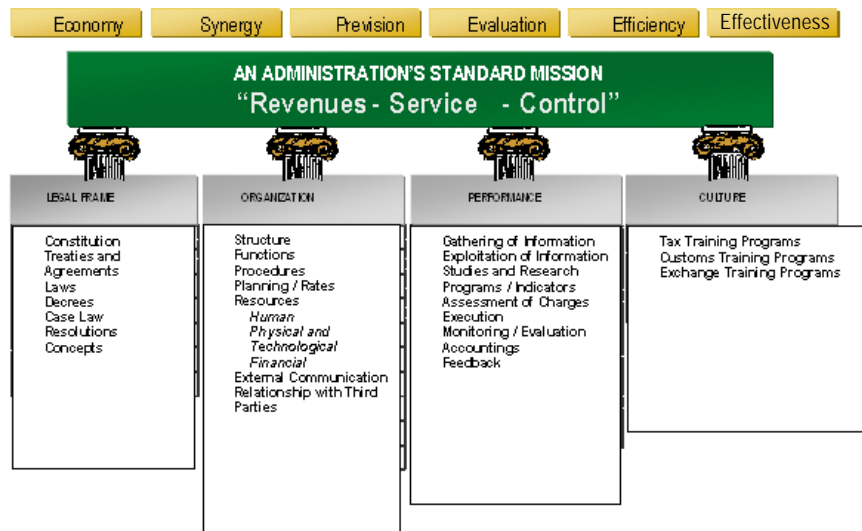
The existence and the pursuance of this strategic principle guarantees for the model a balanced development that favors all aspects of the organization.

2. DIAN's Wholeness.

By way of this second basic principle of the MUISCA, the DIAN structures itself as a whole unit, defined in interrelated elements committed to a purpose or mission, which in turn has its own limits that allow to interact with other bodies of its environment.

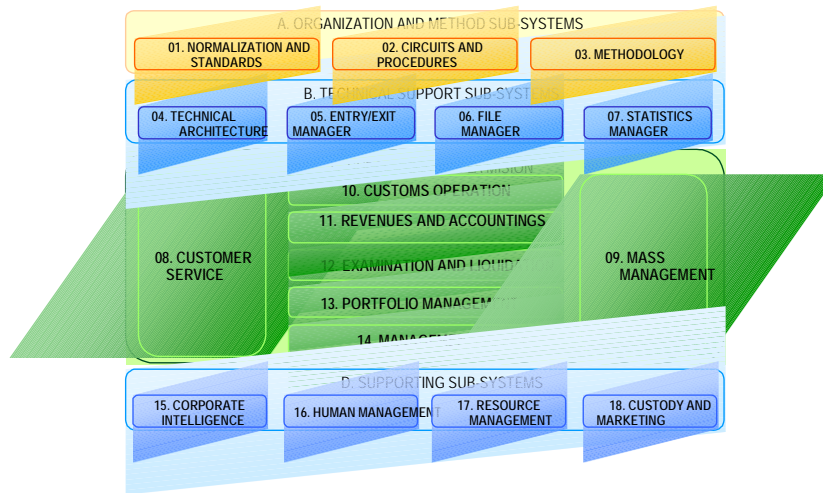
Hence, the mission of the Directorate of National Taxes and Customs of Colombia is defined as:

“the entity responsible for providing economic agents with a service of facilitation and control, for the performance of the rules that make up the tax, customs and exchange systems, in agreement with the constitutional principles of the administrative function, aimed at collecting the proper amount of taxes; speeding up foreign trade operations, fostering the conditions for fair competition, providing reliable and timely information, and contributing to the social and economic welfare of Colombians, in a unique manner for the Colombian State”.



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This mission, like that of other tax administrations, makes possible to structure the Model in specialized and interrelated sub-systems that are targeted at carrying them out. Also, it allows the incorporation of the Entity's processes in a classified fashion, clearly identifying the services that must be provided by each actor within the DIAN. Process groups classified in sub-systems in MUISCA are:



Organization and methods.

An institution with the magnitude of DIAN's and with such a strategic relevance for the Colombian State and the society requires guaranteeing that the policies of the high government and the Management be materialized in effective actions at the different organizational levels, and therefore, organizational and management components play a prevailing role. Among the aspects to be considered are: an excellent articulation between different offices and organizational levels; the normalization and standardization of all its procedures; an optimum work flow and proven work methodologies that ensure an optimum and homogeneous nationwide performance.

The organizational components inside MUISCA that will contribute to guarantee the above cited are grouped in the sub-systems of normalization and standards, circuits and procedures and methodologies, which comprise the normalization of all business and administrative documents, and the documents of all circuits and procedures at a national level, targeted at guaranteeing a standardized flow of work and information.

Mission.

The *raison d'être* and the responsibilities of the DIAN as a State institution are reflected in its mission, which, as mentioned, entails collaborating to ensure fiscal security of the Colombian State, and the protection of the economic national public order, by way of the administration and control of the due performance of tax, customs and exchange obligations, and the facilitation of foreign trade operations under fair, transparent and legal conditions.

The management of central processes at DIAN is underpinned within the MUISCA by the so-called mission sub-systems, which consist of: customer service, mass management, customs operation, tax collection and accountings, examination and liquidation, portfolio management and legal management. Each of them has its own specific services and they all make use of the services of the technical support sub-systems, while they interact with all other sub-systems.

On the adequate administration of these processes largely depend the improvement of service provision, the increase in tax collection, the reduction of tax evasion and smuggling, and in general the institutional performance, with the aim of contributing to meet the State's needs of resources.

Support.

In order to adequately manage its central processes, any organization or institution require some administrative supporting processes such as human resources, corporate intelligence, financial resources, and in general, an administrative support that guarantees an optimum management at a national level. These processes comprise a series of specialized activities that are fairly regulated by the national laws in terms of their execution. In the case of DIAN, the sub-systems of custody and marketing are included, which are the processes responsible for the administration of seized, confiscated and abandoned merchandise, and the management of own resources resulting from the marketing of goods and services.

Technical support.

In addition to this classification, the MUISCA incorporates and articulates technological processes at the same level as that of business processes, which acknowledges its importance for generating a greater order and lower management costs. In the same way, it turns these processes into strategic factors for the survival, growth and competitiveness of the DIAN.

Historically, the DIAN has applied this technology locally to segments or individual parts of the organization, at an application level. Essentially linked to continuous improvement strategies, the MUISCA has chosen to use technology for the integral management of its responsibilities. Among the most relevant characteristics of the MUISCA stands out the importance of information technology support sub-systems, which are: technical architecture, entries and exits manager, file manager and statistics manager, which are vital to support and facilitate provision of all other services.

In practice, this principle has contributed within the DIAN in the generation and use of conceptual and technological tools that are targeted at integrating organizational and knowledge areas in a transversal fashion, allowing to economize efforts and costs. The issue is fairly clear in the cases of services offered by customer service and mass management sub-systems, because given that the Tax Administration is an organization covering a great part of the geography and the population – which in the case of Colombia, it must additionally assist the needs of customs operation and exchange control -, the needs of the DIAN to interact with its customers, users and agents are thus transversally addressed.

On the other hand, the effectiveness of these services cannot be conceived without the adequate treatment, classification and processing of information, as well as the diversification of access channels from and to the DIAN, by way of the intensive use of the corresponding technology. Portals, call-centers, e-mail and knowledge management are some imperative technological elements for a qualified provision of such services, and for the encouragement of voluntary compliance and the improvement of tax management.

1. Viability and Transcendence of the DIAN.

Establishing this principle for the DIAN through the MUISCA allows the institution to acknowledge itself as an effective body over time, which transcends its limits to integrate with other national and international bodies, and is relevant for the viability of the State through its different environments and governments.

Within the MUISCA strategy, the Entity's mission is outlined as follows:

“By 2010, the tax and customs administration of Colombia will have consolidated the State’s tax authority, the institutional autonomy, high levels of voluntary compliance with the obligations that it controls and facilitates, the integrity and full exploitation of information, of processes and regulations, the contribution of technical elements for adapting the tax burden and the simplification of tax, customs and exchange systems, by means of a qualified team of public officers committed to safeguarding the State’s interests with a sense of service, an integral and permanently updated technological support, and a special administrative system, typical of a modern entity that addresses the needs of society, officers, taxpayers and users”.

This Vision poses two relevant challenges to DIAN's pertinence: the permanency over time and the tax authority in the State. Both demand effective processes for reducing the levels of tax evasion, smuggling and exchange violations, turning tax fraud more expensive, facilitating national and international businesses, generating confidence in the country, etc. These complex processes require strengthening the entity's reflexive and knowledge capacity within the vastness and depth of the environment's perception, as well as enlarging the capacity to relate with others with a view to facilitating and making possible the direction, administration and management of the responsibilities essential to the public function, upon problematic, changing and multi-dimensional environments.

In this sense, examination processes, for example, are faced with the challenge of becoming a selective and complete way of providing treatment to customers. They must use investigation techniques that allow to define risky areas that are regarded as strategic within the tax

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and customs systems, always seeking to optimize tax collection or voluntary collection, and avoiding distortion of the economic activity at large. These areas include economic sectors and taxpayers having a presumably fraudulent profile.

The examination or selective control is put forward as a role model and at the same time as sufficiently versatile so as to make taxpayers, foreign trade users and other agents perceive a certain risk of being subject to control.

It is intended to induce timely and adequate compliance with tax, customs and exchange obligations of different groups of taxpayers, foreign trade users and other agents, by way of generating an institutional presence and control, and by using own and external information, thus achieving timeliness and certainty in the selection of cases to be investigated, effectiveness of management and the reduction of possible complaints of administrative acts before jurisdictional authorities.

Within this approach, it is necessary to conjugate two reflexive and work realities: the *outside* and the *then*. That is, the adaptability of the organization on account of the supply to the entity of the relevant information about the environment within which it operates. On the other hand, an inward approach, which determines the need of the organization to apply methodologies and achieve a coordinated synchronization of efforts from all administrative units.

The organizational processes converging in the first aspect are those in connection with corporate planning, research and development, tax and economic studies, marketing and work method studies, analysis of the viability of decisions and the set up of performance parameters or action guidelines to follow. This effort requires data analysis profiles, trend analysis, scenario projection, technological change analysis and other external factors relevant for the future of the organization.

Processes converging in the second aspect are in connection with operating programming, time studies, analysis of behaviors, supervision, monitoring, follow-up, control, evaluation, decision making, analysis of work loads, definition and standardization of processes and definition and standardization of documents. This effort requires data analysis profiles, operating investigation, audits, evaluation, conflict resolution and negotiation.

What is pursued then is to set up an efficient approach for the adequate re-orientation of the entity, the design and development of actions needed for its performance and the supply of elements of qualified and impartial judgments intended for an adequate decision making.

It is a fact that day after day the task of defining renewed and innovative methods and procedures is increasingly complicated, which are intended to dominate the knowledge that accumulates in growing data volumes circulating along the world's information networks, at infinitesimal speeds. These results in the need to optimize both time and available means, so as to capture said information volumes and process, exploit and spread the information.

The services offered by sub-systems such as tax and customs examination, corporate intelligence, human management and portfolio administration are defined by MUISCA as strong consumers of technological development. They are in great need to interconnect with the external world, through the use of products for concentrating and organizing great amounts of information in data vaults, recognition of risk patterns and profiles, and through the use of data mining and content management tools. This is directed towards the modernization of analysis models, understood as generic schemes of essential ideas that seek to represent: specific work organization, methodology and procedures, apt to generate courses of action regarding topics or areas of interest, to allow the production of intelligence.

From the point of view of information technology, the permanency over time is favored through the incorporation by MUISCA of *avant-garde* concepts contributed by the best service-oriented engineering and architectural practices, process modeling and control and resource management. The most representative characteristics of the model are the following:

- **Flexibility:** one of the most outstanding features of MUISCA is its high degree of parameterization, which upon having to undergo new taxes or changes in regulations (rates and procedures), these can be performed with no need to carry out code programming tasks, thus considerably speeding up such task and reducing its cost.

The system relies on information and software meta-models for the integral treatment of all kinds of revenues (taxes, customs and any others), and is targeted at covering all needs of own

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resource management (human, physical, financial resources and institutional relationships).

- **Simplicity and transferability:** as mentioned, MUISCA conceives the person as one of its most relevant components; hence, products deriving from the development of its procedural and IT tools are access and use-friendly, specially designed for service personalization to address particular and collective needs, based upon an interactive model in line with the corporate image, and DIAN's principles and values.
- **Sustainability and support:** reducing the captivity risk of single agents of the IT industry is one of the pillars of technological performance processes; therefore, the MUISCA has outlined the use of open designs and standards that allow to lower risks associated with single providers and/or third party's products, as well as competitive processes among a great variety of technology providers.
- **Interconnection:** definitely, the use of open and widely spread standards for exchanging information and information services allow the DIAN, through MUISCA, to establish new links both inside and outside, in a standardized and controlled manner.
- **Safety and recoverability:** the continuity of DIAN as a service producer is safeguarded through a single security model, established upon the strictest information technology security schemes and standards. This model establishes procedural, logical and technological procedural supports for the recovery of the service, as per the pertaining specified levels.

ACHIEVEMENTS TO DATE

The output and results of the MUISCA Model have generated achievements targeted at improving tax collection, management and DIAN's positioning, both in the short and long term. Likewise, the strategy of joint work between current affairs and development has allowed a successful implementation of products and services; without neglecting specific programs of change management.

1. Strategic Achievements of the Model.

- Support of the high government.
- Change of the organization's mentality.
- Articulation of organization's planning and operations towards the strategy.
- Revision, adjustment and simplification of processes and diligences.
- Technological transformation towards sustainability and mass coverage.
- Successful management of current affairs through transition schemes.
- Census of over 1,500,000 customers within the RUT.

2. Operational Achievements of the Project and the System.

- Selection of greatly qualified expert users and IT technicians.
- Functional and technical specifications of sub-systems.
- Standardization of over 1,000 documents.
- Specification of 256 circuits.
- New DIAN's Portal (image and contents).
- Construction and development of central core IT services (Functional and graphic designer of forms, Dynamic generator of forms, Circuit and file control designer, Technical architecture services for the authentication and audit of transactions).
- Construction and implanting of RUT.
- Migration of RUT information and articulation of information from the National Registry of Civil Status and Security Administrative Department.
- Interaction with information systems of organizations collaborating with the RUT process (commerce chambers).
- Acquisitions of information technology in open bid processes:
 - To lower costs through competition
 - To check service levels through internationally renowned benchmarking tests.
- Training of 100 persons at the information technology area in new technologies.
- Training of 800 facilitators in RUT process.
- Technical recognition of national and international entities and bodies.

3. Future Services.

To continue with the development of MUISCA strategy, in compliance with the objectives of phases 1 and 2, particularly targeted at:

- Improving quality of entry information.
- Lowering latencies and costs of derived processes.
- Strengthening service culture.
- Complying with the anti-diligence law, etc.
- Complying with CAN's provisions.
- Fostering mass use of technology.

About IT services developed in technical support sub-systems:

- Technical Architecture.
- Entries and Exits.
- Case and File Manager.

Of some services of other sub-systems, such as:

- Mass Management.
- Corporate Intelligence.
- Human Management.
- Statistics.
- Tax Collection.
- Physical Resources.
- Customs Operation.

And of interfaces with systems prior to MUISCA.

As from the first semester of 2006, the DIAN will provide the following services to internal and external users:

- Virtual diligence of documents.
- Virtual "submittal" of documents.
- On-line payment.
- Mass loading of information through electronic means and the Internet.
- On-line digitations with the DIAN.
- Revenue Accountings.
- Documentary management.

Case study

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MANAGEMENT

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CONTENTS: Introduction.- 1. Recent Managerial Experience of the Colombian Tax Administration.- 2. Managerial Perspectives of the Colombian Tax Administration Within the Framework of MUISCA.- 2.1. Corporate planning.- 2.2. Operational programming.- 2.3. Supervision and control.- 2.4. Organizational support.- 2.5. Process management.- 2.6. Information technologies in management.

INTRODUCTION

For several years, most private organizations in the world have been using information technologies for carrying out their basic operations, such as production, marketing and accounting; and progressively these tools are being used to generate more value added and improve the managerial systems. Likewise, public institutions have been evolving along these same lines, especially in developing countries, of course, with their own budgetary limitations.

Although it is true that organizations resort to technology to be efficient and effective, it is also true that they must take care of their main resource, the human capital, inasmuch as it is capable of generating the knowledge that develops, increase and manages the intellectual capital of the modern organizations.

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Many scholars coincide in that it was Frederick Winslow Taylor who, over a little more than a hundred years ago began scientifically studying the work and proposed its division into stages, analyzing and optimizing each of them. Henry Ford would be one of the first entrepreneurs in applying this new perspective. Likewise, Demming's great contribution was the so-called Cycle or spiral of quality, which consists of a conceptual model of the interdependent activities that influence the quality of a product in the different phases that range from identifying the expectations of the customers, up to evaluating if these were satisfied with the product. His findings have been very well used by Asians in relatively recent years.

All this scientific evolution in the administration led, in turn, to the development of the tools, automation and the appearance of robots, which have allowed for multiplying by fifty and more times, the productivity of the manual worker.

In the developed countries, there is no longer talk about quality, productivity or efficiency, inasmuch as such elements are internalized in the culture of the persons and organizations as the natural and daily way of excelling and moving forward, in the same way as their fondness for work which is not the same as the fondness for employment.

The more advanced nations are currently facing the challenge of this new century, that is, to multiply the productivity of the intellectual worker; and by the way, there appear in parallel the tools of Information Technologies, with which we are familiar in our countries. These tools are being aimed at serving as the technological support of the new organizational trend called "Knowledge Management" as it is known in the English language.

The concept of "knowledge" has been given different meanings, depending on the authors and the perspectives of their work. For our purposes, facts are identified through data generated by daily operations and transactions that occur in any organization. These data become information when they are ordered, grouped and analyzed and finally, knowledge is the combination of information, context and experience. Of course, one must take into account that knowledge additionally covers, beliefs, perspectives, judgments and expectations, and even methodologies.

Our organizations and businesses have much knowledge dispersed among their staff, their documentary files, their meetings, their culture, their customers, their message and claims and in their environment.

Fortunately, institutions are considering how to rescue such knowledge and make it available to all the individuals comprising them as a new tool to move forward and compete, or simply to survive. The digital format and the Information Technology tools are the infrastructure that allow for placing and disseminating said knowledge.

Accordingly, the objective of businesses on wanting to make better use of their knowledge, is to convert the organization into an intelligent organization, in order that such knowledge may be used in decision-making at every level, which will thus determine a better operation of the organization and a higher index of customer or user satisfaction.

What is important is to generate a trend and some methodologies that may take into account the persons, to rescue and enrich the organization's intellectual capital. Obviously this is not easy, since it is natural that many persons would initially not wish to share their knowledge with the rest of the organization, on considering, for example, that such knowledge guarantees their continuity on the job.

In current practical life one of the main problems faced in the execution of the strategy of businesses is the lack of alignment between what is defined at the strategic level and what is done in the operational sphere. Generally, this is not an easy task and especially if one lacks the necessary tools for achieving it.

In the market there are multiple business intelligence technologies that allow for measuring performance at the operational level, the latter being understood as the basis for monitoring daily activities. Likewise, those technologies link daily operations to tactical and strategic aspects aimed at guaranteeing organizational success through time. Their use is quite consolidated and generalized in the developed world, but it is still too incipient in the developing countries and mainly in their public sector, due to such factors as the lack of consolidation and order in the institutions and the very high costs of business intelligence and knowledge management technologies.

In general, for the use of information to generate a positive impact in the organizations in aspects such as the knowledge of customers, optimum rendering of services, proactive management, speediness

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in response times, the analysis of risks in their different activities and wise decision-making, it is necessary to identify, document, rationalize and automate all procedures and operations and that they be aligned with the organizational and human structure. This implies, in addition, the use of appropriate information technologies at the operational, tactical and strategic levels.

We endeavor to summarize in this document, the recent experience of the Colombian tax administration in relation to the use of information technologies for managing the institution, with special emphasis on the managerial precautionary measures posed in the new management model that we have called Single Revenues, Service and Automated Control Model, "MUISCA".

1. RECENT MANAGERIAL EXPERIENCE OF THE COLOMBIAN TAX ADMINISTRATION

Fifteen years ago, the administration undertook a process of significant changes in the managerial function by strengthening planning, evaluation and control, creating for such purpose specialized organizational dependencies or units at the central and regional levels. Initially, they were centered on the conceptualization and instrumentation of their functions, for the purpose of strengthening management and institutional alignment.

In general, it may be said that in the Colombian tax administration there are rather clear concepts in relation to this matter and to date, some instruments have been used that allow for moderately managing the Institution and which are worth mentioning.

A general diagnosis of the institution is elaborated annually, which serves as input for the elaboration of the institutional annual operational plans. More recently, some longer term proposals were made; displayed to the different units of the Institution at the central, regional and local levels and with management goals and indicators clearly defined, fundamentally in customs, examination and collection aspects. Parallel to this, other goals of an administrative nature have been established. They are presented in format that allow for the computerized treatment of this information.

As a complement to this planning activity a performance evaluation scheme was established many years ago. It has evolved through time

and at present it considers the biannual harmonization of individual objectives in keeping with the operational plans, which are subjected to permanent follow up in order to guarantee their compliance.

With respect to management follow-up and control, some follow-up reports are anticipated, in addition to the capture of consolidated information from the monthly management results. These tasks are carried out with very simple computerized tools for processing general information, which are provided with control mechanisms that in our analysis have shown increased weaknesses due to some deficiencies identified in the quality of the information. This scheme involves procedures for generating information from some transactional systems for their subsequent loading into the global system. Likewise, some procedures require manual compilation and consolidation of information for their subsequent capture.

A scheme was structured for the tax examination processes and procedures. It allows for automatically feeding the information from a transactional system to a managerial system built with business intelligence tools from the Cognos Canadian Company. In this system, the consolidation processes are run monthly and permit a follow-up of management of the aspects previously defined in operational planning. Likewise, to support economic and fiscal studies, a Data Warehouse tool is being used from the same manufacturer. It stores debugged information from the tax returns and allows for faster simulations and projections. It has been particularly useful for the analysis of information and impact of the proposals arising within the framework of the tax reforms undertaken after the year 2000 and for the production of tax statistics.

Additionally, as instrument to support management and decision-making, there is a computerized consultation tool which promptly provides managerial collection statistics and likewise, the procedure for generating foreign trade statistics is automated.

On the other hand, it is important to point out that several of the customs processes and many of the administrative ones are managed with the help of simple local computerized tools, originating from the creativity of some administrations, while many other processes are still handled manually, for which reason it is impossible to automatically link operational aspects to the other managerial levels.

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Although advances as those mentioned can be shown, in general, it must be admitted that the multiplicity of systems developed in the Colombian tax administration does not include statistical and managerial services and they have fundamentally reached the level of recording the different operations and transactions. Therefore, initiatives have been undertaken for establishing automatic managerial systems for extracting, loading and presenting managerial information to the different organizational levels, without yet being able to arrive at a solution, due to the complexity of the different platforms and the lack of reliability of the information of some transactional systems.

In this line of thought, the information technology solutions currently existing result in some delayed reaction times, which negatively impacts the management of the institution as regards collection, and reduced effectiveness of the control tasks.

On the other hand, knowledge of the customer is deficient, given the quality of the information found in the current systems. Nevertheless, there has been a significant improvement in the analysis of risks, on having ever greater exogenous information and the tools for processing it. In turn, this has contributed to the availability of a significant amount of information for decision-making and for directing some key areas of the institution.

The potential for use of information technologies has been intensive at the operational level, although without covering all the processes, while at the strategic level the possibility for use with the tax, customs and exchange information has not been promoted. Thus, in this area there is yet much to be done.

In order that information technologies may better support strategic management, an adequate management of processes is needed, beginning with a permanent review that may include the documentation and frequent rationalization of processes and procedures, updating of the work flows and definition and standardization of the contents of information from the different forms, formats and files. In this way, a good base will be available for automating the transactional processes and based on their information, it will be possible to feed the strategic processes for management and decision-making with quality, timely and relevant information.

Without having yet fully used information technologies in the strategic management processes, it may be said that the most recent tax reforms have been based on a significant number of scenarios elaborated on the basis of information that is stored and processed with Data Warehouse tools. Likewise, in the area of examination, crosschecks and analyses carried out with these tools have generated interesting results. Said otherwise, with a relatively small investment, results have been significant. However, there are great possibilities for improving management that range from making maximum use of all the information that may be available and making use of the technologies that may be developed or acquired in this area.

2. MANAGERIAL PERSPECTIVES OF THE COLOMBIAN TAX ADMINISTRATION WITHIN THE FRAMEWORK OF MUISCA

2.1. Corporate Planning.

In order for strategic or corporate planning to work, any decision or course of action which an organization may consider adopting, should originate from a sound, objective, impartial and complete analysis of the environment wherein it acts, generating key information for making decisions with respect to the direction to be followed, as a result of the interpretation of the signals given by the environment and their incorporation to the entity's activity.

The decision regarding the direction to be followed must be evaluated in terms of its viability. In other words, it should result from previous filtering, which based on elements of judgment and pre-established analyses may allow the administration to consider the requirements as well as repercussions from implementing such decision.

Corporate intelligence should provide the basic criteria for analyzing the main factors of an external or environmental or internal nature, as well as analyzing normative and organizational implications, the relationship with external and financial entities and the impact, with a view to determining the viability of their adoption, as well as the capacity required by the entity for making its decisions and achieving its objectives, considering the particular limitations and restrictions it must face.

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In this analysis, factors depending on the entity (governability) are determined, as well as the extent to which it is capable of fulfilling the responsibilities assigned, the decisions adopted or the pre-established courses of action.

In this context, it is determined whether the financial capacity, normative framework, existing organization, relationships with external entities and the impact are capable of generating the expected results, without affecting the normal operation of the entity and, accordingly, determining the requirements for adjustments and or improvements to be undertaken.

After establishing the viability of the decisions made, one proceeds to develop the navigation map to be followed by the entity for periods of at least four years, in keeping with the national development plan, (government plan) which must be subsequently rendered operational for carrying out the operational programming function.

Research and development.

In order to promote institutional intelligence and management by using, among others, the information technology, it is necessary to strengthen the research and development capabilities in order to, as mentioned in the introduction, multiply the productivity of the intellectual worker. To this end, it will be necessary to undertake intellectual and experimental activities in a systematic manner, for the purpose of increasing knowledge about a specific subject.

The purpose of this process is to determine all the participating and interacting elements in the Tax Administration's corporate intelligence scheme, from the diagnosis up to its execution, and from the latter up to its evaluation, at all levels of the organization; that is, from the strategic up to the individual level, by defining each of the stages (formulation, programming, execution, follow up and evaluation), as well as those responsible for the process in each of them.

There is no single or standard methodology for undertaking this task, inasmuch as it is a process of an empirical nature, of trial and error, experimentation and iterations. It is based on the merely intellectual and academic field and makes intensive use of creativity and rational processes that are not necessarily structured.

Among others, one result expected is the development of possible, methods, techniques, tools and/or instruments that may be created, improved and implemented and may help the organization to better perform its managerial and operational functions. To this end, it will be essential to promote them by using information technologies and the systematization of all processes associated to institutional intelligence.

This line of work is aimed at the elaboration of studies and research in the fields of tax and customs policy and administrative management, in such a way that it will be possible to provide consistent and adequate support to the design of reforms or adaptations to tax legislation, the organizational structure and the working methods.

The working areas in relation to taxation, although broad, are intended to detect gaps in the legislation, measure their impact on collection and suggestion changes to the legislation.

On the other hand, it is necessary to analyze the consequence of exception treatments provided in the legislation (exemptions, deductions, tax stability, differential rates), and in general, the tax effects of proposed laws relative to tax and customs issues.

Also of utmost importance is the analysis of figures and indicators of economic and tax behavior with other tax and customs systems of recognized managerial success. These comparisons include data on tax burdens, VAT rates, income tax rates, specific taxes and selectivity criteria, among others.

The working areas in administrative matters, although broad, are intended to detect new ways of working and operating, analyses of times and work loads, forms of organization and administrative operation, analysis of operational costs and operational profitability of the entity, services to be offered, new channels of communication with the taxpayers and users and development of products and services, among others.

Information technologies will play a fundamental role in the automation of such basic processes as registration, control and follow-up of concrete studies or requests for carrying them out.

Accordingly, it is possible to chronologically locate the requests receive from different areas through diverse means such as Internet, Intranet, regular mail, electronic mail, and allow their incorporation and

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management in keeping with some basic control and security parameters, that may include the name of the requesting official or dependency, the name of the receiving official, date, time and place of reception, name of the request identifying its justification, field of application, product expected and date for which it is requested, among others.

Since the organization nourishes itself with external sources of unstructured information, it should be possible to obtain and import every type of file from any source, from any type of configuration, variable lengths and every type of registries. This information may affect and modify definitions of registries already created in the entity's bases.

On the other hand, obtaining periodic statistics on subject matters of the request, response times, areas to which the requests belong, levels of satisfaction achieved, mechanisms mainly used for solving the requests, etc., should be allowed.

Likewise, versions of the different, fields, methods, techniques, tools and/or instruments developed should be kept for consultation purposes. In this way, it will be possible to recover and access experiences and most similar cases, thus promoting the reutilization of already developed aspects, the review and adaptation of proposed solutions and the storage of new solutions as part of an organizational learning exercise.

Economic and tax studies.

The economic and tax studies are investigations intended to increase the knowledge of the economic sectors and activities and their relationship to the tax norms, the collection of taxes and the tax policy and structures.

With the support of such studies, the Tax Administration may establish, improve or adopt methodologies; obtain measures and indicators as, for example, the level of smuggling or evasion based on behavioral estimates of the economic activities of various agents; the change of origin, under invoicing and over invoicing or the analysis of their implications in macroeconomic variables such as employment and growth. Likewise, one may estimate the impact of probable changes in the norms on tax collection.

In addition, they contribute to facilitate the generation of indicators that may assist in guiding the control, prevention and service actions that should be displayed by the State through the entity. These indicators may correspond to the aggregated management of the entity or to the different taxes it administers.

Along these lines, it is essential to make comparisons with other tax and customs administrations, especially those from countries with better levels of compliance.

To this end, it is necessary to develop methodologies, create data and statistics bases in general, undertake projections and the dissemination of their results.

Performance parameters.

A performance parameter is an expected behavior, on which basis the entire entity will be managed. These parameters may be action plans, predefined procedures, working programs, goals and indicators and previously formulated action protocols.

The materialization of these parameters is expressed as a written formula or expression of what one has intended to achieve and responds to the questions how? (Description), when? (Time horizon), where? (Geographical area), how much? (Indicator and goal), with whom? (Responsible person), with what (resources).

The formulation is made in a hierarchical descending order. One defines the plans first; then goes through the filter of implications and then establishes what needs to be scheduled (projects or processes), with the instruments to develop the indicators, the goals and budgetary scheduling of each of them.

The formulation of plans, operational programs, processes and projects is accomplished through the definition of clear objectives, activities and tasks. For each of them one establishes, as appropriate, the hierarchy, indicators and goals, in such a way that it may be possible to observe the level of progress and compliance with the objectives, activities and tasks.

Another substantial aspect in the formulation is the estimation of resources (budget, supplies, individuals, time) to be used in developing the plans, programs and projects, the latter described in terms of quantity, quality, timeliness and cost.

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Each of these parameters includes sufficiently detailed information in terms of their description, sequence, duration, responsibility, controls required and authorizations, among others, thus allowing for counting on a detailed registry of the actions which an area, process or individual must strictly follow.

There are two types of parameter formulation: qualitative, referring to attributes and descriptions, such as, for example, the definition of objectives, policies, procedures and norms; and quantitative, which are numerically expressed, as statistics and indicators. They may be presented in formulas with only one of them (qualitative: mission, vision, objective; or quantitative: indicator, goal) or a combination (qualitative: objective + quantitative: indicator + quantitative: goal). In the case of quantitative data, it is possible to perform simple or more complex crosschecks with information from other subsystems, such as budgetary, accounting, contractual, statistical and managerial (indicators). In the case of qualitative “data”, the crosscheck is possible through descriptors (key words).

Consultations can also be made in any specific order, considering the indicated fields and attributes, in such a way that the searches and inquiries may be facilitated, may be faster and elaborated according to the user’s needs.

The formulation of plans ranges from the highest level of management of the entity down to the individual level or to each official, in a descending cascade and is the starting point for follow-up, evaluation and control processes.

These aspects are administered through the automation of basic processes involving the registration, control and follow up of the objectives, indicators, goals, resources and responsible officials. Accordingly, they require the detailed registration of each of the aspects mentioned.

The fields for capture are alphabetical, numeric or alphanumeric, which may be processed manually or through the incorporation of information from external sources, which calls for inputting every type of file, from any source, any type of configuration, variable lengths and every type of registries. This information may affect and modify definitions of registries already created in the entity’s bases.

Each formulation includes the description of the objective, program, project, activity, sub activity or task according to the level; time horizon, geographical location, indicator, goal, responsible person and resources with which it is expected to carry out the proposal (objective, program, project) and will be included in regular documents that will be incorporated through the input and output subsystem.

The cascade configuration of the formulation of the plans begins with the definition and formulation of the Strategic Plan, which is under the responsibility of the Management Committee and which is the result of a process of investigation, studies, analysis and decision-making with respect to the institutional objectives and the strategies to be followed, abiding by principles of efficacy, efficiency, effectiveness, economy, celerity and advertising.

The Strategic Plan is formulated for a period of four or more years and corresponds to the macroeconomic policies traced by the national government and its National Development Plan.

For its formulation, it is necessary to count on a diagnostic report that uses as input a series of information originating, among other things, from the normative framework, the national development plan, sectorial programs, national and sectorial policies, economic, political, cultural, social, technological, juridical and geographical factors, international and interinstitutional agreements, reports from the Bank of the Republic, National Department of Planning, the DANE and the multilateral organizations; specialized reviews and publications; the administrative development defined by Law 489 of 1998 and headed by the Administrative Department of the Public Function, with the objective of strengthening the administrative capacity and institutional performance of the sectors; the presidential directives, whereby the President sets the policies and gives specific guidelines to the state entities; documents of the National Economic and Social Policy Council, Conpes, which as maximum national planning authority and counseling body of the Government in all aspects related to the country's economic and social development approves documents regarding the development of general policies, the policies and goals set by the Superior Council of Fiscal Policy, Confis, in its documents, internal regulations and/or organic statutes, decrees, resolutions, administrative orders, administrative instructions, concepts, circulars and memoranda; institutional activities agreed in its current budget; principles and values; products and services; customers, processes, human talent, physical resources, financial resources, computerized

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equipment and resources; reports of control entities, institutional evaluations, information from the regional directorates, special administrations and other administrations and reports from the complaints and claims system.

2.2. Operational Programming.

Programming is understood to be the detailed description of the series of activities that are to be carried out for the development of the annual operational plans.

Thus function deals with the series of norms and procedures established regarding the activities that have to be carried out for successfully achieving an objective, as well as obtaining data and information required for making decisions aimed toward said objective.

The necessary sequence between strategic plan, annual plan and programs may seem strict and extensive. If one considers its automation, it is understood as a process that goes from the general to the particular.

The premise of the operational program is that of global vision (plans) and local action (programs).

It requires that there be updated and complete information regarding estimates of work loads, volumes of production, availability of resources (financial, human, technological, time), before deciding the activities and tasks to be carried out.

A necessary condition of the exercise is the permanent support of experts in computerization and financing for carrying out technological capacity and costs studies and accordingly, establishing the need for availability in these areas.

It requires sound coordination in the planning, programming and execution of each executing unit, as well as broad skills for the negotiation of roles and responsibilities.

Programs, in particular projects and agreements, call for the creation of an appropriate infrastructure for execution, which is parallel to the formal organic structure of the executing units. This involves implications regarding cost, operational capacity and competency and hierarchical relationships.

Operational programming is the procedure that involves the distribution (ideally in a rational and fair manner) of the work to be carried out by each administrative unit and/or official for successfully achieving the goal set, likewise considering the factors of production (human, physical and financial resources), the goal and process, activities or tasks to be carried out.

Such function allows for carrying out programming procedures that may effectively handle the flow of operations, customers and tasks. It also allows follow-up and control for making the necessary decisions regarding their reorientation, if required.

The programming begins by considering the entity's current operational capacity, to then compare it with the capacity calculated or required for achieving the objectives and/or goals traced.

The comparison of the current capacity and that required allows for establishing the needs or excess resources, in such a way that one may undertake actions for obtaining them (deficit) or reallocating them to other activities (surplus).

The way of establishing the required needs is based on the analysis of the historical series of the behavior of known variables, (processing times, working hours, work burdens assigned, work burdens satisfactorily solved), the records of behavior statistics and information crosschecks regarding the operational efficiency of the areas.

In the case of projects, it is possible to undertake programming based on the analysis of unknown situations, simple mathematical estimation models that allow for an estimation of quantitative variables and for projecting them according to global and individual productivity.

With operational programming and based on the goals, it is possible to establish the amounts to be obtained from the final products and services in a specific temporary horizon, taking into account the circuits and associated procedures. The available input serves to develop the purchase plan and the estimation of the payroll or staff required, which compared with the existing operational capacity, allows for determining the needs for resources and their budgetary cost.

The existing capacity is determined through automatic input of the data bases of the corresponding subsystems, according to the conditions determined for each one of them in the respective circuits or else, through the definition of different parameters, according to the data established in the respective bases.

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In order to compare what has been planned with the existing capacity, one takes the information originating from the executing or management units related to the process or project that is being programmed, and allowing for making the corresponding inflationary adjustments, in order to compare it with the initially assigned budget.

To determine the expected consumption of resources by the planned goals, these are introduced in the system of information on processes and procedures, where it determines the executing units and the intensity of use required by each step of the process.

Through the planning of capacity needs a comparison is made between the capacity available for each executing unit and the resulting burden from the set of planned goals for a specific time horizon.

This comparison assists in the adoption of corrective measures with respect to the way of carrying out the planned goals that may bring about decisions involving the modification of the projected capacity for the different jobs, subhirings, and change of routes or dates of the goals.

The exercise benefits from the information generated by the different institutional processes regarding availability of resources, scheduled vacation time, times for the execution of tasks, volumes of work processed per unit of time, physical space available, number of working teams, availability of infrastructure, basic norms, among others.

This function provides models for forecasts and simulations (which endeavor to determine with some level of certainty the future behavior of some variable), cost analysis, sensitivity analysis, and others that afford sufficient elements of judgment for making impact and cost-benefit estimates, that guide the decisions regarding the best options for the entity..

A duly authorized person must render official and implement the programming. It should include the specification of the automatic approval criteria, referring as a minimum to the objectives and processes involved, the officials responsible for each of them, dates determined for their compliance, definition of indicators for each one, route sheet for their distribution and dissemination. After the programming is approved, it is possible to assign activities, tasks or works until arriving at the individual level.

The function allows for making inquiries in any specific order, considering the indicated fields and attributes, in such a way that the searches and inquiries may be facilitated, be made more rapidly and be elaborated according to the user's needs. In addition, it allows the administration, responding to control and security parameters, obtaining periodic statistics on the levels of execution achieved and early warnings that may allow the reorientation of a decision.

It also considers the hierarchy of the areas and dependencies of the entity, as regards the central as well as regional level, for purposes of obtaining the programs by area, region, administration, division, group and individual, as the case may be, differentiating between what is project and what is process or other commitment, for purposes, for example, of an agreement.

2.3. Supervision and Control.

This function anticipates internal control mechanisms with a more preventive than sanctioning sense, guaranteeing the timely solution of anomalies or erroneous procedures, regardless of curbing manifestations of corruption or undue actions on the part of the users.

Such control of the entity will cover the two levels of the structure (central and operational) and promotes compliance with the objectives and norms, reasonably guarantees the reliability of financial and management information, identifies and reduces the institution's risks, prevents irregular behaviors and becomes a process of a multidimensional nature that is related to institutional management.

Control is mainly aimed at satisfying the managerial requirements and needs for the purpose of achieving efficiency and savings in the use of resources and effectiveness of the results.

It becomes a feedback mechanism for the administration and management and involves a series of acts and operations adopted and applied by the institution in compliance with its managerial obligations, whose purpose is to identify the reality, examine and compare it with a pre-established criterion or model, to then modify it accordingly, to safeguard the resources, guarantee reliability and correction of the operations and information, stimulating adherence to the established policies and norms, and promoting the economy and efficiency in the use of resources and effectiveness in achievement of results.

TOPIC 3.1 (Colombia)

Its essence lies in managing to maintain the operational stability of the entity, as a contribution for achieving levels of welfare and improvement of the quality of life of the entity and of those who work therein, ensuring that the activities of the entity be adapted to a desired action plan and that such plan be coupled to the activities thereof.

The maintenance of information technologies becomes a determining factor of the reliability of the system and certainly of its controls, since failures that are not timely corrected may imply the inclusion of erroneous data or loss in the effective application of controls or, on the contrary, a user may opt for the search of alternative solutions outside the official corporate system.

The physical, human and financial resources required by the operation and maintenance of the systems are considerable and also a decisive factor in the latter's sustainability.

The culture of recording transactions is an issue that demands work from the entity for ensuring reliability of input data through the official procedures and avoiding to a maximum the use of contingency levels.

The necessary and adequate definition of standards, (programs, processes, procedures, indicators, performance standards), for each one of the entity's areas, is a fundamental premise for exercising control.

Supervision and monitoring are the central mechanisms for exercising control and they correspond with the necessary means for exercising self-control or, in other words, concurrent control, where the central responsibility lies with the officials of the entity at the level of each job.

It is conceived as a means of undertaking a follow up and measurement of the operational management of each one of the organization's processes, by detecting actual and potential errors based on the principle of exception. Pareto's principle).

The main purpose is to forecast and anticipate the occurrence of errors in the application of procedures and tasks, indicating the focal points on which attention must be focused in order to proceed to their analysis and solution, without wearing down the administration or the

official responsible for making decisions with superficial or trivial aspects, ensuring levels of improvement in quality and timeliness of the control mechanisms.

The exercise is based on three essential activities:

- Measurement.
- Evaluation and feedback.
- Analysis of the quality of information.

2.4. Organizational Support.

Organizations are spheres where resources are transformed into results: in this context they may be described as means for organizing the use of resources. These resources -human and material- that cost money and include technologies must be used in such a way as to achieve the objectives pursued at acceptable quality, cost and timeliness; that is, in a manner compatible with organizational survival.

The organizational design is important for carrying out the functions of an entity, to the extent that it allows for achieving coherence among its components and one may evaluate the consequences on the whole before undertaking any change in any of its parts.

The form of organization is an abstraction of reality, which simplifies the complex world of the relationships between organic units of an entity for the achievement of its goals and the relationships of the latter with the environment.

The design or development of a form of organization (structure) is determined by criteria such as the following:

- Specialization of the work: number of tasks of a specific work and control of the person over them.
- Formalization of the behavior: level of standardization of the working processes.
- Training and education: formal use of training programs for establishing and standardizing skills, knowledge and norms.
- Grouping of units or departmentalization: criteria for grouping positions in the units.

TOPIC 3.1 (Colombia)

- Size of the unit: number of positions in a unit. It is also equivalent to speaking of scope of control.
- Planning and control systems: used for standardizing products.
- Integration mechanisms: used for intra and inter-units coordination. Roles as liaison, task groups, interdepartmental committees.
- Vertical differentiation: level in which decision-making is delegated to administrators under the middle line according to centralization, concentration and decentralization criteria.

The design of the organizational structure implies establishing, among other issues, which are the areas into which the responsibility will be divided within the entity (organization chart), what will be the authority of these areas over the use of resources and also over other areas and what will be the relationships of coordination and articulation between them (configuration, hierarchies, profiles of the positions).

Such design also deals with establishing and applying the rules of the game on the use of resources, division of responsibility and authority, articulation and coordination among the different areas and assignment of the responsibilities of each one of the positions.

In addition to the formal structures, there are the real structures (whether or not supported by the norms in force). The real structure based on norms in force is the “formal-real” structure, while that part that only appears in the norms but has not been applied (or has ceased to be applied) constitutes “only the formal” structure.

Finally, the part of the organizational structure that exists in the facts, although without normative support, comprises “only the real” structure, at times also called informal structure.

The only formal structures are “ghost organizations” that only exist on paper and represent, almost always, bureaucratic obstacles to management.

The only real structures are a sort of underground organizations that must work without the necessary normative support, but which many times exist in response to legitimate needs.

The only formal organizational structures may be compared to obsolete or unapplied laws; and the only real structures to uses and customs, while the real and formal structures may be compared to the effectively respected juridical order.

It is evident that, although in every society these three situations coexist, the first two cannot be too frequent or important without seriously endangering the social functioning.

For this reason, the routine task of the legislative bodies is the constant adaptation of the juridical order through the elimination of obsolete norms and their replacement by other better adapted to the needs and times.

2.5. Process Management.

Any organization must be conceived as a system that interacts with the environment that captures inputs, processes them and delivers results to satisfy the needs and expectations of the customers, the products being the result of the processes carried out by the entity.

The processes are the means for achieving the organizational results; therefore, their design and operation must be in keeping with the results expected. The result of a process is an intermediate or final product or service produced to be delivered to the client.

Management should be concerned that the quantity and quality of the activities carried out, the time devoted and resources and intelligence invested, may entail the expected results, that is, the achievement of the established objectives.

The management of processes allows all processes to work in harmony to maximize organizational effectiveness, or in other words, achieve a competitive advantage through greater satisfaction of the clients.

The result of process management allows for arriving at a common language for documenting and communicating activities and decisions for key processes in the improvement thereof; the duration of a system of indicators linked throughout the entire institution; and the elimination of bottlenecks and duplicity of functions.

TOPIC 3.1 (Colombia)

Process management implies, at least, arriving at:

- The definition.
- The analysis.
- The implementation.
- Optimization.
- The publication of the procedures manual.

At the level of detail, one must clearly describe the mission of each one of the processes that must be executed, taking into account the reason why they exist and for whom it is carried out, specifying the inputs and outputs and identifying the clients and suppliers.

One must measure the quantity and the quality of the product, the time of input until its output, the costs required or their elaboration, as well as the assignment of the responsibility to a user in compliance with the purpose of the process.

It should allow for reducing the unnecessary variability that occurs when services are produced or rendered, seeking to eliminate the inefficiencies associated to the repetitiveness of actions or activities and the inappropriate use of resources.

The modeling of processes is the most precise description possible of a system and the activities carried out therein. When a process is modeled, one may easily observe the interrelationships existing between the different activities, analyze each activity and define the points of contact with other processes. At the same time, the existing problems may be clearly made evident, giving the opportunity for initiating actions for improvement.

The documentation of processes is a structured method that uses a precise manual to understand the context and details of the key processes. Whenever a key process is going to be redesigned or improved, its documentation is essential as a starting point. What is customary in organizations is that processes are not identified and, accordingly, not documented or delimited. Processes flow through different departments and positions of the functional organization, that generally does not fully perceives them as differentiated, and in many cases, interrelated sets.

To manage and improve a process, it is necessary to adequately describe it. In such sense, the circuit design tools and the normalization of documents should allow for documenting the process that should

include as a minimum, the following fields of coded information in order to permit its administration, access, consultation, referencing and harmonizations:

- the output, that is, the result of the process;
- the addressee, dependence or client that receives and grades the output of the process;
those intervening or the officials who carry out the sequence of the activities of the process, according to the profiles established by the entity for performance of the jobs;
- the sequence of activities that describe the actions that must be carried out by those intervening;
- the physical, financial or information resources which the process consumes or needs to be able to generate the output;
and
- the indicators through which the operation of the process is evaluated.

Processes are defined on the basis of a structured checklist, in order to know beforehand the need for an adaptation, adjustment or elimination.

The routine generated begins with a sweep regarding the type of product or service demanded and the potential beneficiary thereof. A comparison is made with the existing records, as a result of the association of descriptors or key words of the product/service and beneficiary, undertaking thus a review and cross validation.

When there is a process in charge of generating the product or service, the interested party is notified and it is activated. In case of nonexistence, an option for defining it from zero is generated.

The processes may be visualized in the form of a diagram or scheme, allowing for describing in graphic form, the way the users perform their job. Those diagrams or schemes may be applied to any sequence of activities that is repeated and which may be measured, regardless of the length of their cycle or their complexity, although, in order that it may be really useful, it must allow for certain simplicity and flexibility. Matrixes permit the configuration of processes maps as an approximation which defines the organization as a system of interrelated processes, urging the entity to have a vision beyond its geographical and functional limits and showing how its activities are related to external clients, suppliers and interest groups. These maps

afford the opportunity for improving coordination between the key elements of the organization. Likewise, they offer the opportunity for distinguishing between key, strategic and support processes.

All the aspects mentioned are absolutely essential for guaranteeing a proactive and effective management, with optimum response times, detailed knowledge of clients and sound decision-making. However, it can only be a reality with the support of appropriate information technologies for the management of all operational processes as well as for the strategic management of the institution; in this case, the Tax Administration.

2.6. Information Technologies in Management.

In order that a model, as the one proposed, may function, it necessarily requires the automation and integration of processes, which include some routine and repetitive procedures of the aforementioned managerial ones, previously defined in the management of process. It also requires that the strategic and managerial processes as such be developed thereon. They should be automated with the appropriate tools of knowledge management. To this end, below is a brief description of the most general services that should be available to the experts for guaranteeing good management at their different organizational levels:

The strategic tools available should allow expert officials to interactively define the series of consultation models that will satisfy the requirements for statistical data.

Mechanisms should be contributed for extracting from the corporate data base a temporary repository of data relative to each inquiry model.

Afterwards, the information from the temporary data repository is collected, it is applied a powerful mathematical apparatus and is stored in the statistical tables, in order to be able to respond to the users' statistical inquiries.

In general terms, these tools should allow for obtaining statistical information about the series of detailed data that is stored in the corporate data base, regardless of the fact that they may have been filed by the taxpayers, third filers, collection entities or external bodies.

They should likewise allow for recovering information about the tasks carried out by the users in their daily activity, the control of results of collection and the control of the use made of the system as a whole.

It is essential to be able to recover summarized managerial information for the managers of the organization and for those responsible for other managing bodies.

The consultation models are described on the basis of different sets of parameters, among which is included the definition of the sources of information, characteristics of the information, data that comprise such information, formats for data storage and representation, relationship between data, selection criteria, aggregation, etc. This description of the consultation models is called statistical metamodel.

These computerized tools must provide the user services for the generation of simulations, classification and follow-up.

The simulations, based on the recovery of a series of disaggregated statistical data, should allow for evaluating, in economic terms, the impact of the different decisions susceptible of being adopted in the future, in tax policy as well as in fiscal and customs issues.

Through classification and follow-up it is possible to establish information crosschecks about taxonomic groups from a knowledge base, in order to follow up the different aspects of the business.

Taxonomic groups are generated by taking into account qualitative as well as quantitative characteristics and conditions.

The knowledge base is formed by one or several entities of the metamodel, on which statistical analyses and inquiries will be made.

Simulation, as well as classification and follow up tools use the statistical information recovered through one or several statistical analyses.

This technological solution should not work directly with the tables of MUISCA's corporate data base, but rather should be supported by a series of statistical tables that include the information relative to the entities of the metamodel, from which the user can obtained statistical information.

TOPIC 3.1 (Colombia)

The statistical information available will not be found updated in real time, but will allow for obtaining some extremely short response times, depending on the needs of the processes in their different managerial levels.

A tool with these characteristics may be developed by the very tax administrations to solve the basic managerial aspects that could cover approximately 95% of the institution's needs, and set thereon, more complex business intelligence solutions and data mining that may be used by officials who are super-experts in economic, econometric, mathematical and other issues for the generation of more complex models and multiplicity of scenarios that may facilitate long-term planning.

Case study

TOPIC 3.1

**INFORMATION TECHNOLOGY AS AN ENABLER OF THE TAX
AND CUSTOMS INTELLIGENCE AND RISK MANAGEMENT.
A BUSINESS PERSPECTIVE FROM AN INFORMATION
TECHNOLOGY ORGANIZATION**

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Tax Administration Service - SAT
(Mexico)

CONTENTS: Introduction.- Why Should Tax Authorities Manage Their Information Requirements.- How Can Tax Authorities Benefit From Adequate Risk Analysis and Taxpayer Behavior?.- How Can Tax Authorities Benefit From Understanding Taxpayer Behavior?.- Current activities within SAT.- IT alignment to business intelligence and risk management.- How Can IT Provide Support to Business Intelligence?.- Risk management within SAT.- Datawarehouse products and transactional reports.- How Is SAT Organizing Itself?.- What Other Activities Have Been Originated That Will Result in Further Intelligence Activity and Better Understanding of the Taxpayer?.- Conclusions.

INTRODUCTION

Tax collection has long been understood as the ability to manage the tax payer willingness to collaborate with the society, and to promote the participation of the citizenship in a proactive mode as opposed to a coercitive fashion.

TOPIC 3.1 (Mexico)

However, recent trends have showed that the Tax collection organization have focused precisely in understanding tax collection as a service, and not from the authority perspective. We all have an obligation toward those that fulfill on time and based on legal requirements their tax duties. These citizens expect that the tax authority will make everything under its power to achieve an equal and necessary fairness against those that do not comply with their fiscal obligations.

In Mexico, we too believe that untangling a bureaucratic process should result in higher willingness from the taxpayers to commit themselves to fulfill their citizens' requirements regarding taxes and customs, but we are also committed to improve ourselves in better understanding taxpayer behaviors and uncertainties.

We should have the "intelligence" to focus on evasive and elusive activities by understanding and segmenting taxpayers.

It is of the utmost importance to define the "services" that we provide in order to define better risk models by understanding behaviors and making use of analytical tools. The current document will provide some concepts, ideas and information about the current and necessary actions that we believe should be part of a tax authority that considers opportunities to improve their tax collection activity. We understand that many countries already have performed some or most of these; our approach might only defer in form but the substance is the same.

WHY SHOULD TAX AUTHORITIES MANAGE THEIR INFORMATION REQUIREMENTS?

Managing immense amounts of information is not only technically challenging, but also has business implications. We know of other industries where managing data can become a burden, so it's the case for Banks, telecommunication industry as well as other services such as Airlines and Hotels.

The business is not interested in the raw data, they want information. You can't take decisions with data, you need to organize such data in a way that it represents knowledge.

On top of our own information, we need to administer relevant third parties information that will allow us to corroborate, expand and

understand the taxpayer behavior. This load can be irresistible but it also needs to be managed properly and intelligently.

In some occasions, the business will require certain tools to analyze data and manage it as information. The original “owner” is the moved to other positions and the tools tend to be forgotten and underused. It is relevant to have a reasonable management of requirements in order to maximize requirements that fulfill different business areas. In many cases the same information is required but with a different angle.

Managing the “life cycles” of information is also relevant. Huge amount of data are processed and very soon its outdated or even worse, nobody does a follow up on a previous requirement and data keeps been piling up without specific current or actualized needs.

Current volumes.

The SAT datawarehouse is managing 6 aeras of information. SAT processes amongst other data:

- 7 million custom’s declarations (cargo).
- 300k tax returns (annual company filing).
- 2.1 million non corporate annual returns.

HOW CAN TAX AUTHORITIES BENEFIT FROM ADEQUATE RISK ANALYSIS AND TAXPAYER BEHAVIOR?

An organization is closer to certainty when it is not guessing. It usually has gone from “I think” to an “ I know” situation, where the knowledge is an inference from standardized analytical tools and methods.

It’s not uncommon to start making inferences based on personal experiences as will be discussed later. A mature organization needs to transcend from individual appreciations to judgments based on facts.

In early stages og risk analysis, “risk weights” for specific taxpayer conditions will most likely be agreed upon, based on personal experience from the person or a “committee” that could have been set for the purpose. Unfortunately, a risk weight might be intuitive and based on assumptions.

TOPIC 3.1 (Mexico)

The next step for risk modeling might be based on the evaluation of multiple variables run through statistical models that confirm or invalidate a business hypothesis.

It would be common to start with risk mitigation activities and later evolve into independent decision tools.

Example for risk mitigations is setting a parameter in which specific taxpayers will be managed differently based on thresholds such as percentage of refunds compared to declared revenues and others alike.

Example: Current and future state for tax refunds in SAT.

Initially we have worked on different parameters that allow us to better manage refunds requirements. Some examples of the thresholds that have been set are:

- Maximum value for “automatic” tax returns.
- Cross checking expense deductibles.
- Cross checking with third parties such as employer provided information of their employees.
- Maximum tolerance between required refund from taxpayer and gross sales or income, in order to intensify verification or validation.
- Supplier chain verification.

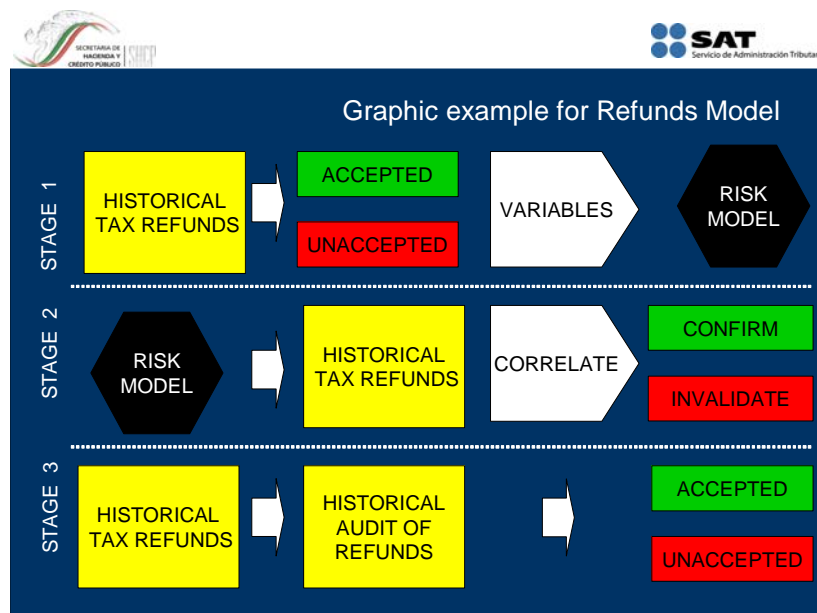
This type of acceptance levels allows to massively respond to refunds from individuals and to review specific refund requests. However it is based on certain assumptions, since it's not validating a business hypothesis as will be discussed later.

Alternatively, a risk model is in process that takes into account:

- Analysis of up to 7000 variables in order to define those that are statistically conclusive.
- Correlate variables with manual analytical refund processing.
- Generate hypothesis for significant values of variables.
- Run model for half of the sample and compare results with other half.
- Confirm or invalidate.
- Run analysis after auditing was performed to taxpayers with refunds.

- Generate risk model.
- Confirm or invalidate auditors results as an intelligent model.
- Propose analytical tool with a known confidence level.

Example of a risk analysis model.



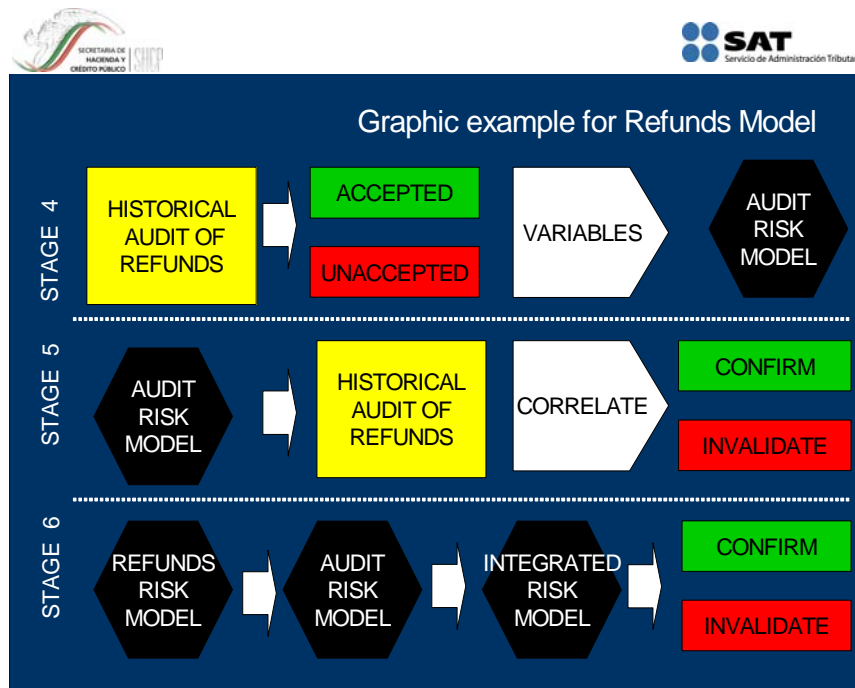
Stage 1. Historical tax refunds that have been manually sorted with thorough analysis are introduced into the model.

Stage 2. Thousand of variables are considered for each independent event (values, taxpayer industry, consistency of payments, etc.) and an initial risk model is obtained in which the variables are now assigned to specific refunds request.

In order to validate, the risk model is now used to be the filter of the other half of the historical refund request, independent of the result (approved or rejected that was given by the refund analyst. This process confirms or invalidates the model, by matching number of positive comparisons (independent of approved or rejected). This demonstrates the statistical compliance of the model compared to the analyst behavior

TOPIC 3.1 (Mexico)

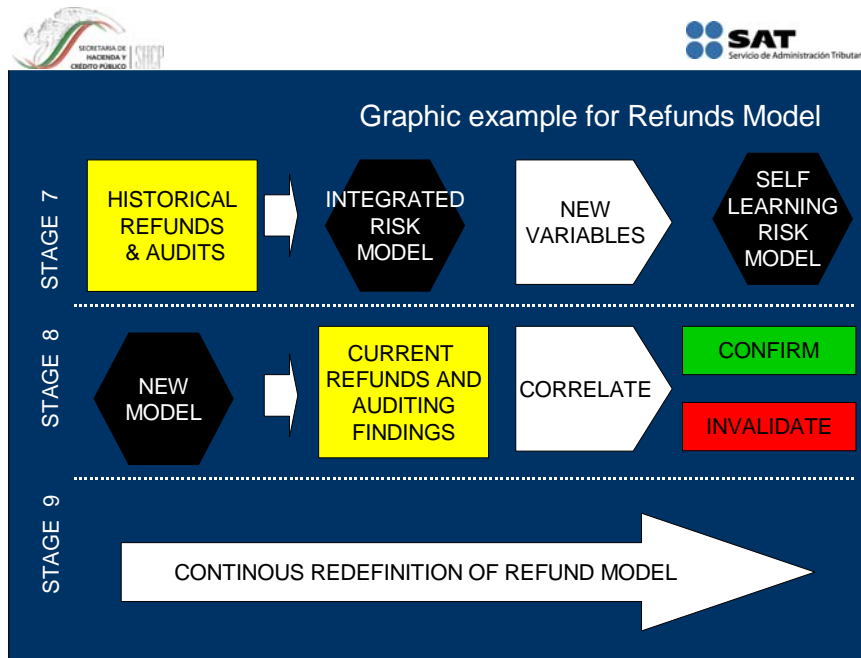
Stage 3. A second group of refunds that were later reviewed by the auditing group (Taxpayers that were audited and where their refunds request where validated through additional analysis, with presence on the taxpayer premises and careful on site validation) is considered. In some cases such review from the auditing group might have confirmed the previous analysis made by the “refund” analyst. In other cases the on site audit process might result in the conclusion that such refund (or part of it) should not have taken place.



Stage 4. Again this is compared against substantial amount of variables in order to redefine the outcome of an approval or rejection.

Stage 5. In the same method, the result is validated against the other half of the results and statistical compliance is observed.

Stage 6. Working with both models, an integrated risk model is produced, which takes into account both the “backoffice” analysis from the “refund” analysis experience as well as the “on site” results from auditors, to provide a better statistical model



Stages 7, 8 and 9 are the recurring process needed to validate and to introduce new variables which were not present at the time of the initial modeling as well as changes from both refund analyst groups and auditing groups

By these means, it is possible to have a learning model that allows the organization to manage high certainty on specific refunds and allows the refund and auditing groups to concentrate on specific refund request that are of high risk.

HOW CAN TAX AUTHORITIES BENEFIT FROM UNDERSTANDING TAXPAYER BEHAVIOR?

Evidently understanding taxpayer behavior is not only associated with unaccepted activity, but also as part of the way it manages its regular requirements. This understanding will allow the tax organization to better serve the citizen by different means:

- Personalization of Internet interfaces.
- Better handling of remote and local support of taxpayer needs.

TOPIC 3.1 (Mexico)

- Match federal requirements with local government requirements for taxpayer handling.
- Reduce time to reaction of taxpayer expectations (New products and Services).

CURRENT ACTIVITIES WITHIN SAT

We are currently under a large revision of our internal processes which should allow us to have a horizontal perspective and diminish the “silo” approach to the taxpayer. In order to better serve our citizens, SAT is reorganizing its customer master. We currently have different customer master based on specific requirements: Importers, Returns and Collections, Brokers, CPA's, etc.

A single view will allow us to better manage individuals and corporations with a single perspective. It is important to understand that each “catalogue” has its own functionality and the customer master will have to take such requirements into account.

SAT is also redefining its portal implementation, looking into best practices from the industry as well as adhering to a government initiative known as “citizen’s language” that addresses the issue of utilizing plain vocabulary and non technical terms to facilitate the understanding of the average user for the government services.

As many other countries we are also doing surveys and exit polls to better understand the taxpayer needs and expectations

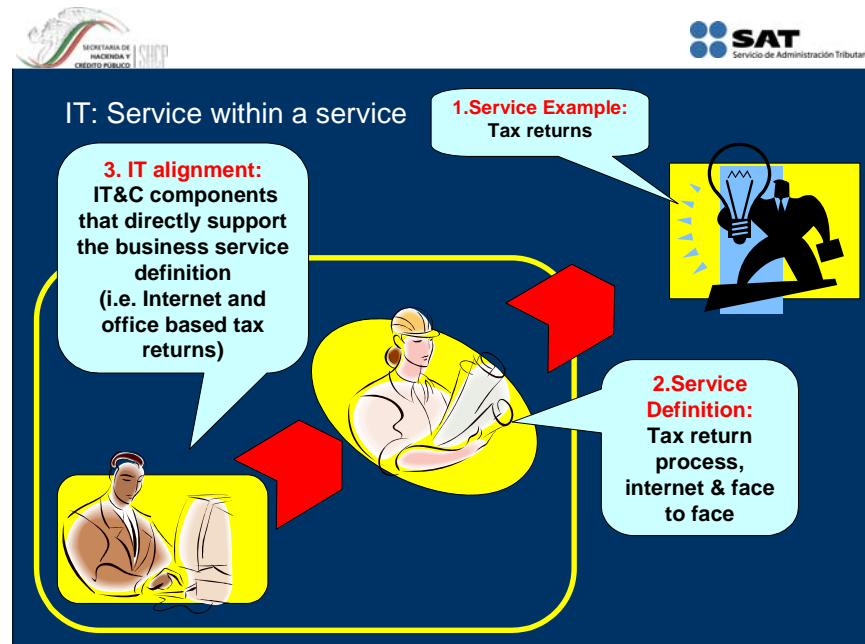
Understanding the taxpayer allows the organizations to provide better remote (personalized) services as well as face to face interfaces.

Managing the taxpayer issues when there are two different authorities (local and federal) is also an issue, as the taxpayer expects to have a single point of contact to fulfill his/her obligations.

Finally, we should be able to redefine or improve our current services, as well as introduce the results of the taxpayer behavior into the new service developments.

IT ALIGNMENT TO BUSINESS INTELLIGENCE AND RISK MANAGEMENT

It should understand that business intelligence and risk management is a “service within a service”.



Managing data, converting it into useful information, setting up the risk parameters and proposing risk management strategy are all services provided by the business to other business areas. IT should be able to support the internal efforts that focus on providing such tools and proposals to the operating side of the business.

A clear example that we have describe within the current document is tax refunds. A thorough process to identify risks is necessary to have a fast reacting organization both to compliant taxpayers as well as being able to identify irregularities.

Day to day operations need the professional assistance in these matters to better serve the citizens. Therefore, it becomes an internal service that procures to the end user, or taxpayer.

IT organizations should focus on managing the request by the groups that will internally end up providing such service.

HOW CAN INFORMATION TECHNOLOGY PROVIDE SUPPORT TO BUSINESS INTELLIGENCE?

If we understand that information IS an internal service, if we understand that transaction processing sometimes obstructs the view of information management, setting up specific teams and making them work in synch should turn up with better returns.

A horizontal understanding of business risks and business intelligence facilitates coordination.

Therefore, business intelligence and risk management should be the service driver. IT needs to provide feedback and info about data managing and transformation, as well as costs.

We should keep in mind that any service will require special attention and will be judge by four essential elements:

- Standardization.
- Time to delivery.
- Cost management.
- Psychological (customer management).

RISK MANAGEMENT WITHIN SAT

SAT is currently developing a program that focuses in an integrated vision of the different risk management (Integral Program for Evasion Control, PICE acronym in Spanish).

Current business

Tax refunds.
International trade risk model.

Under development

Internal tax risk model.
Corporate accounts tax refunds risk model.
Corporate accounts internal risk model.
Taxpayers location and registry risk model.

Under final business definition

CPA's risk model.
External auditors risk model.
Lawyers' firms risk model.
Tax collection risk model.
Taxpayers' obligations risk model II.

DATAWAREHOUSE PRODUCTS AND TRANSACTIONAL REPORTS

Our Corporate Datawarehouse is currently offering an important array of internal services, as seen on the following sampler:

Taxpayer obligations, Payments, Collections and Refunds

- Payments
 - Economic Sector, region, drill down to taxpayer
- Manual procedure refunds
- Automatic procedure refunds
- Refund risk grade assessment
- Collections behavior
- Collection risk grade assessment
- International trade risk assessment

Third parties information management

- States: Payrolls, Social security, vehicle, land property taxation, business license, Utilities
- Bank paid interest
- Internal Performance metrics
- Internal Auditors performance metrics
- Customs' performance report
- Integrated performance metrics (shared) reports

Taxpayer overview and behavior

- 360 degrees view for taxpayer and for taxpayer behavior (Internal)
- Taxpayer obligation analysis
- Taxpayer identification
- Economic sector, Regions,
- Local office appointment management
- Tax Returns. Peak days, amounts and behavior
- Taxpayer profile (Individuals)
- Customs Data Mart

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- Behavior analysis from unplanned consults
- Trade Balance behavior
- US trade with Mexico behavior by sector with drill down to importer-exporter

HOW IS SAT ORGANIZING ITSELF?

SAT has an IT division that works with the end user and helps translate user needs into IT needs.

IT provides information services to end users through client applications, special extraction processes (one time needs) and DWH access.

Within SAT there is an organization that focuses on establishing agreements with state governments and other agencies to obtain their information data bases which are then provided to the DWH department for clean up, cross reference and loading.

SAT is in the process of re-engineering the tax collection services and one of the new concepts introduced is “shadow accounting” which consists of information provided by the tax payer and information obtained by other sources such as third party, informants, etc. allowing SAT to cross reference information provided by the tax payer and better decision-making.

WHAT OTHER ACTIVITIES HAVE BEEN ORIGINATED THAT WILL RESULT IN FURTHER INTELLIGENCE ACTIVITY AND BETTER UNDERSTANDING OF THE TAXPAYER?

- Promoted and received proposals from the banking industry to increment usage of more than 30 MM credit and debit cards.
 - Prizes and benefits for card holders.
 - Government accepted a proposed trust that will support growth of Points of Sale (POS).
- Set out the rules for electronic invoicing.
- Promote the use of Internet transactions.
- Increased the number of agreements with Local Governments as well as other national organizations such as Social Security and Housing Institutions.

CONCLUSIONS

A clear focus on business intelligence and risk management requires a horizontal, comprehensive and service approach.

SAT is undergoing a major reengineering process and even though a new focus has been set, there are still great areas of opportunity to develop better practices. We encourage other countries to provide feedback, share experiences and contact us, so we all can provide a better service to our citizens and taxpayers.

Case study

TOPIC 3.2

THE INFORMATION AND COMMUNICATION TECHNOLOGIES AND TAXPAYER ASSISTANCE

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State Agency of Tax Administration - SATA
(Spain)

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1. INTRODUCTION

The purpose of a Tax Administration is to ensure that every citizen and business may contribute to bear the public burdens in accordance with the provisions of the Law. To this end, it must undertake a series of activities in two directions: assistance on the one hand and, on the other, prevention and rectification of fraud. The participation of the Information and Communication Technologies (ICTs) in both instances is necessary. Thus, for example, the ICTs are playing an important role in the recent Tax Fraud Prevention Plan which the State Agency of Tax Administration (SATA) implemented in January of this year. This document includes some applications of the ICTs in relation to assistance activities. Their mode of presentation is through an analysis of the way they interact with the remaining factors or administrative resources which are the ones that “face up” to the final addressee.

The Information and Communication Technologies (ICTs) must contribute to achieve an effective and efficient Tax Administration. The importance that may be attributed to them is that they exceed what is merely instrumental and penetrate into what is substantive. The permanent advances in the ICTs and the speedy fall in actual prices does not necessarily entail better results. There should be an adaptation process in the administrative factors which are the ones that really determine the result of a public organization. The administrative factors of a Tax Administration are first and foremost the taxpayers whose behavior vis-à-vis tax obligations are decisive. Secondly, one must consider the possibilities of developing collaboration formulas with agents outside the Tax Administration. Financial entities, tax professionals, as well as public organizations may collaborate in the management of taxes, based on the mutual benefit principle. The third essential administrative factor is information. Tax administrations have a very intensive information activity for which reason they must consider the ICTs as a means for their management. The fourth factor to be taken into account is the impact which the ICTs may have in the procedures that condition the administrative action. Last but not least, one must analyze its impact on public employees, which calls for carrying out specific actions with respect to staff, given that the activity of public organizations responsible for tax management is also a very labor-intensive activity.

2. THE ICTs AND THE CITIZENS AND BUSINESSES

Taxpayer behavior is a decisive factor in the operation of a Tax Administration. It is not the same to maintain tax relationships with taxpayers who are willing to collaborate with the Tax Administration than with those who are opposed to it. It is for this reason that the SATA bets on discriminating in favor of those taxpayers who want to comply with their tax obligations and negatively against those who do not comply. A significant effort has been made in the application of the ICTs to the assistance tasks, as is the case of the aid programs and virtual office.

Communication Technologies make the Administration more accessible to individuals. One should seek to improve the perception that an individual may have of the Administration as incumbent of a particular interest in a specific action and as someone with a general interest in the adequate operation of the

Administration. By improving his perception a greater identification with the Administration is achieved, which undoubtedly contributes to improve its results. The achievement of public purposes, interests and objectives shall always be the responsibility of the public powers, but will be ever more dependent on the collaboration of individuals. One should endeavor to develop an active position of the citizen and business before the Administration, vis-à-vis a merely passive position.

It should be admitted that taxpayers have a right to participate in the establishment and maintenance of public services. Through Internet, the individual may:

- become aware of the strategic plans and service commitments of the Administration;
- become aware of the levels of compliance with his objectives;
- participate in the determination of services to be rendered and how to render them through discussion forums, electronic suggestion boxes, etc.

In this way, the individual participates in the operation of the Administration, not as part of a concrete procedure, in which he is the incumbent of interests or rights of his own, but rather as a member of the community, that is, as impacted by the general interest.

This type of participation should be promoted through the new technologies, in order to achieve a greater level of rapprochement, internalization and identification of the Administration with society.

Conventional communication channels such as written communication and physical participation of the interested party has physical limitations that restrict the level of interactivity. Computerized communications have no physical barriers, for which reason they may contribute to facilitate the level of interaction between the individual and the Administration.

An example of this type of application is the fact that the SATA has deemed it necessary to afford society the possibility of participating in the preparation of the so-called Tax Fraud Prevention Plan by showing not only its preliminary version but offering a box to make suggestions thereto. Over 500 suggestions have been received, which may also be consulted in the SATA's Web page server, nay

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of which have been incorporated in the Plan. This is a good example of how, through the ICTs society has come to participate in the elaboration of an administrative action plan. Suggestions are still being received through this box.

The Spanish Tax Administration offers computerized programs to assist taxpayers in the preparation of the returns. At present, it offers up to 17 aid programs for the taxpayers. These programs have been developed for execution in personal computers which is a computerized resource available to an ever more significant number of taxpayers. For those individuals who still do not have a personal computer, the SATA offers among its assistance, services, the preparation of IIT returns at its offices.

The assistance programs guide the taxpayer in the preparation of the return, perform the calculations required by any tax assessment process, show the results obtained, visualizing the results of different taxation options when the legislation allows varied modalities of taxation, print the return and generate a file for its computerized presentation.

Assistance programs represent an advantage not only for the taxpayer, but are also beneficial for the Administration, since they allow for improving the quality of the information, by validating the data introduced by the taxpayer and performing the necessary calculations to thus prevent the taxpayer from incurring in mathematical errors.

They also allow for printing the return on white paper. Therefore, one can dispense with the pre-printed forms since the printing module of the assistance program may print the form. Another advantage obtained from printing, in addition to the corresponding model return form and the contents of the return-assessment in alphanumeric characters are the data that must be recorded by the Administration in a format that may be legible by the computer, such as a code of bi-directional points. This allows for speeding up the capture of relevant information from the return since it may be mechanically read.

These assistance programs also permit interaction with the services and contents that the tax Administration offers through Internet.

Thus, for example, they allow access to the SATA's questions and answer data bases which cover the administrative criteria, the downloading of data relative to the taxpayers whose consultation by Internet is authorized by the Administration, the filing of the return and payment, as appropriate, and even access through the chat mode with a remote agent who may assist in an incidence or inquiry. Another type of assistance is the virtual office. The individual, on being involved in a specific procedure, must have access to all the information he may need and be able to file any petition, request or document from any place, at any time of the day and any day of the year. This has called for the development of the integral virtual office concept which should allow the individual to:

- make his requests through computerized media;
- have access to all information and documentation which the Tax Administration has available;
- be able to consult the computerized bases that should include the existing administrative criteria for the application of the regulations;
- obtain information on the processing status of a specific file;
- be able to access the file in which he may be interested;
- be able to submit his allegations by computerized media and to contribute the documents he may consider convenient;
- be notified through computerized media, if he so wishes;
- obtain administrative certifications;
- value the Administration's performance and pointing out aspects requiring improvement.

To the extent the Spanish Tax Administration has a sound information system and its management systems are computerized, the implementation of Internet in Spanish society allows access to individuals and businesses to this information system and to specific applications.

The decision to use Internet for carrying out certain procedures with a tax Administration in the Spanish case is based on four elements:

1. The reliability of the information system.
2. The duty of the Tax Administration to promote the use of new technologies in society.

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3. The possibility of providing a satisfactory solution to the users by contributing value added vis-à-vis conventional solutions.
4. The need to detect as soon as possible the problems to be solved, since the time will come when the taxpayers will call for communicating with the administration through this means and will not admit doing so through conventional means.

It is worthwhile to analyze some of these problems and the solutions applied:

One of these problems is to need to be able to identify the user accessing the services offered by the Administration. The services offered may be classified into personalized services and open services. With respect to the latter it is irrelevant to know who accesses the service. In the case of personalized services it is necessary to identify the user.

Electronic identification may take place via three systems:

- Through specific information whose knowledge is shared by the two parties intervening in a computerized communications. This would be the case of a password.
- Through an element that is available only to the user and which he provides when making a computerized connection. This would be the case of electronic identification certificates.
- Through some characteristics of the person accessing these services. This would be the case of biometric identification elements such as the fingerprint, iris of the eyes...

The second alternative is the one chosen by the Spanish Tax Administration on being a valid solution for any other Administration and additionally allowing for the digital signature. The supplier of certification services is any of the fifteen external certification authorities recognized by the SATA.

In the personalized services, which as indicated, require identification, one may, in turn, distinguish two categories. These are the services of access to personal information and those allowing for undertaking some procedure. The latter require a digital signature.

The procedure regarding transactions with a digital signature is the following: When the user sends an electronically signed document, he transmits three blocks of information. The first corresponds to the document in binary format. The second is the electronic signature, which is the result of applying an algorithm to the data of the document being signed, including in the algorithm a private code, which is the taxpayer's personal and secret code. Through the signature a subjective relationship is established with the signatory and an objective one with the contents of the document. Only this signer and this document may produce a specific electronic signature.

The third block of information transmitted is the signature, certificate of identity. This includes his personal identification, his public code and the electronic signature of the certification authority that has issued the certificate. The public code is associated to the private code used by the signer, in such a way that it can be used to verify, but not to generate the signature received. If the verification algorithm proves the coherence of the signature with the contents of the document and with the public code, the aforementioned subjective and objective relationship is established. This is the way of solving problems dealing with authentication and integrity. The signature appearing in the certificate allows the addressee of the transaction to verify that the certificate has been issued by a Supplier of Certification Services which may be trusted by the receiver of the electronic transaction.

The procedure established by the supplier of certification services for obtaining the data to create the electronic signature (private code) and the certificate of identification guarantees possession of these devices by its authentic incumbent and thus avoid that the signer may subsequently reject his signature.

Another issue to be solved is the need to provide service 24 hours a day and the seven days of the week. There is no virtual window working hours for the SATA.

Likewise, the Internauts require immediate service without losing connection with the Web page server. The SATA has established a remote assistance service based on Web technology.

Among the most relevant services offered by the SATA to the taxpayers there is the possibility of filing returns and making

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payments via Internet. In the Spanish case, payments are made through financial entities. The SATA has no cashier service to collect taxes. The computerization of tax payments posed the need to find an alternative to the mechanical validation performed by the financial printer of the bank branches and that could serve as verification of the payment made.

In the case of computerized filing of returns, the taxpayers need not visit the financial entity personally to pay the taxes. They may use the distance banking services to make payment and subsequently transmit the return to the State Agency of Tax Administration.

Obviously, there has been no change in the procedure whereby the taxpayer makes the self-assessment. He may download from the Web page of the SATA the necessary assistance programs.

What in fact has been modified is the self-assessment procedure. The official printed form disappears and is replaced by an entry order before the Collaborating Entity and by an electronic return before the State Agency of Tax Administration.

Any type of relationship not requiring the physical presence and which is accepted by the financial entity is valid: home banking, telephone banking, Internet,... Actually financial entities have adapted their distance bank systems for such purpose.

In order to ensure that the tax has been previously paid, prior to transmitting a return to the State Agency of Tax Administration, it is necessary to provide a complete Reference Number. This number is assigned by the Financial Entity at the time of entering the payment to the Public Treasury's restricted account. It constitutes an electronic signature from the entity proving that a specific payment has been made by a specific taxpayer.

This number consists of two parts: the control characters (8 positions) and the justification number (14 positions).

The control characters are defined by an algorithm wherein there intervene the data of the payment operation, as well as a private code that has been assigned by the State Agency of Tax Administration to each financial entity.

The justification number represents for the conventional payments the number of the form used for the self-assessment and payment. Since the printed form is no longer used, there is no identification code for the document and therefore, it must be assigned by the financial entity when payment is made through some banking system not requiring personal presence.

The justification number mainly serves as an identification code of a deposit. When a taxpayer provides a letter of payment as justification of a deposit that does not appear in his tax current account, one may use the justification number to locate the deposit.

This number has been maintained with the computerized filing system because, even though the letter of payment does not exist, the taxpayer may show a deposit justification issued from the Web page of the State Agency of Tax Administration as a copy of the electronic return filed.

The justification number, on being assigned by the financial entity, includes in its configuration the entity code assigned by the Bank of Spain. This allows the SATA to verify the NRC received with the return thus recovering the private code assigned to the entity.

The SATA decided to offer the taxpayers through its virtual office all the information that may be of interest for compliance with their tax obligations. First of all, it allowed the taxpayers to consult the data provided by the employers, financial entities, investment fund and pension plan managing entities and insurance entities that may affect the directly. The intention is to show the information, not to conceal it, in order to facilitate compliance with tax obligations.

This has involved a significant cultural change in the organization and an effort by the entire organization and the suppliers of this information to provide and process on time over 300 million entries.

The next step has been to propose to a specific segment of taxpayers the individual income tax return. These return proposals are called draft return. These are taxpayers who, according to the information profile available in the SATA System, receive revenues on which the necessary information is available.

Once the taxpayer request this service, the SATA sends and makes available to him at the SATA's virtual office the so-called draft return so that he may confirm or modify it as he may deem it more convenient.

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In the case of an amount to be refunded, to confirm the draft it suffices to communicate to the SATA the reference number included in the draft and a data that does not appear therein, which is the tax identification number. This solution allows for confirming the draft through any channel, even by sending an SMS message with these two data.

If it is the case of an amount to be deposited, payment is made as if it were another self-assessment, with the peculiarity that is it not necessary to present the return, neither on paper or through magnetic media. It suffices to indicate the draft that is being confirmed through its reference number, which has the same structure as the justification number of the rest of the self-assessments. This allows for confirming IIT drafts through the automatic teller machines of the financial entities.

The rectification may be made by telephone or Internet in which case, a new draft is generated in real time, which in turn, may be confirmed or modified.

3. THE ICTs AND THE ALLIANCES

The main purpose of the external alliances, within the context of taxpayer assistance, is to find action mechanisms wherein other agents may participate, whether of a public or private nature, based on the principles of mutual benefit and reciprocal trust. The ICTs allow the establishment of internal and external links oriented toward communication, interaction and coordination.

The electronic, computerized and telecommunications means allow access to information, exchanges of information, reciprocal access to management applications (case of shared management competencies or outsourcing).

An example of this type of collaboration in Spain is the participation of over 300 financial entities in the collection of taxes which constituted one of the keys to modernization of the Spanish tax administration in the mid 80's. The entities are not only in charge of financial management but also record basic information from each deposit and receive and transfer the returns to the SATA, except in the assumption of returns filed by Internet where there is no paper and the computerized presentation of the return is done directly before the SATA after having made, as appropriate, the corresponding deposit.

The procedure for filing and paying taxes in Spain is the following:

Taxpayers may file their self-assessments and make their deposits in any banking office of a financial entity with the capacity of collaborator of the State Agency of Tax Administration.

The printed form used to make the self-assessment consists of three copies with the same structure for all taxes.

There is an upper part with the identification of the taxpayer, the tax and period being assessed, an intermediate section to include the essential data of the assessment and which, therefore, is variable since it depends on the tax and a lower one which shows the amount deposited, the site and date where the self-assessment is filed.

Of the three copies, a yellow-colored one, remains at the Office where the self-assessment is made and the two remaining ones are for the taxpayer who will preserve the blue one as justification of filing and will include the white copy in the envelope of the annual return, to be discussed further on.

Taxpayer identification takes place through the self-adhesive identification label issued by the SATA's Information System.

This facilitates for the Administration the process of identifying the incumbent of the self-assessment inasmuch as in this way, transcription and recording errors are avoided, by incorporating a control character.

Each printed form includes a justification number whose first three digits correspond to the self-assessed tax item and whose last digit is also a verification character.

Collaborating entities are obliged to open three restricted accounts in the name of the Public Treasury:

- Special self-assessment account (for self-assessments with a monthly periodicity).
- Self-assessment account (for the remaining self-assessments).
- Account for deposits of self-assessments made by the Administration.

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The reason for separating the self-assessment deposits into two accounts is to be able to speed up the processing of information from self-assessments of large companies.

Collaborating entities submit in a centralized manner and by teleprocessing to the Tax Computerization Department, three files with details on deposits, seven days after the end of each of the 24 fortnightly periods of collection.

In addition, the collaborating entities records only seven data for each self-assessment.

- NIF, which indicates who the filer is.
- The first three letters of the first surname in the case of individuals, which serves to verify the identity of whoever is responsible for the tax.
- Justification number which includes the tax item.
- Assessment period.
- Date of filing.
- Site of presentation: office and banking entity.
- Amount deposited.

The Bank of Spain transmits to the Tax Computerization Department information on the deposits made by the collaborating entities in the Public Treasury Account in order to register them in the accounting records and likewise matching them with the detailed information on revenues transmitted by each entity to the SATA.

The files received from each Collaborating Entity are subjected to a computerized process that consists of four phases: Matching, Validation, Obtaining Accounting Results and incorporation of detailed information in the current account of the holder of the income.

The matching process requires that the amount of income included in the file be equal to the amount deposited at the Bank of Spain.

The validation process analyzes the records one by one to ensure that they comply with the technical specifications established.

If there were serious errors or the information provided did not match, the file received would be rejected.

Thereafter, the revenue is entered in the accounting record, based on the code of the model included in the justification number.

The last step is the identification of the holder of the income on the basis of the Tax Identification Number and the three letters of the Surname, shown in the self-adhesive label, which ensures its correct incorporation to its current account.

The participation of the ICTs in this collaboration process is fundamental. The financial entities use their computerized applications to verify that the capture performed at the cashier's window is correct, and thanks to teleprocessing, information is directly received with regard to the amount entered at the Bank of Spain as well as detailed data on the revenues. The SATA applies computerized solutions to verify the quality of the information received.

The change from the personal receipt of revenues to the receipt by means of, distance banking has been simple: It sufficed with developing an electronic seal issued by each financial entity for each entry received, that may act as the justifier of revenues and which is called Complete Reference Number.

For the financial entity this implies a reduction of costs, by saving on the customer's visit and not having to process documentation, since once the entry is made and the entry seal is obtained (CRN), the return is transmitted through Internet directly to the SATA.

Another success is the participation of the port and airport authorities as well as Customs Agents in the computerized filing of returns on foreign trade. The results achieved thus make it evident: 96% of the returns are electronically filed; average time of clearance of goods at the customs warehouses is less than an hour.

The consignees, through teleprocessing, provide the port or airport authorities the list of goods that are going to be introduced in the customs territory, thus allowing them to prepare the necessary loading and storage equipment. In turn, these authorities transmit to the Tax Administration, an excerpt of this information so that it may be compared with the information shown in the return on imports prepared by the importer or export or customs agent acting on their behalf.

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The possibility that the customs agent, who habitually acts as intermediary in this type of operations, may electronically file and sign the return, has allowed for counting on authentic specialists that have favorably accepted electronic filing, since it allows them to offer their customers a better service.

Another good example of cooperation is the participation in the electronic filing process on behalf of the taxpayer, among others, of the tax advisers, especially through the mechanism of social collaboration.

The need to have a representation in specific actions, has called for designing a presumptive system of representation within the framework of social collaboration, to render possible the computerized tax relationships.

Social collaboration in the management of taxes, provided in the General Tax Law, implies the active participation of entities, institutions and representative bodies of social labor, business or professional sectors or interests, to facilitate and favor the taxpayer's compliance with their tax obligations.

Social collaboration in the management of taxes for the electronic filing of returns, communications and other tax documents may refer to the following aspects:

- a) Filing of returns, communications, returns-assessments, self-assessments or any other document required by the tax regulations.
- b) Filing of appeals.
- c) Request for postponement and agreement for payment of tax debts in installments.
- d) Request for compensation by a party.
- e) Request and obtaining of clearance certificates.
- f) Filing of any other document of a tax nature.

Social collaboration allows the participation of agents other than the taxpayer in tax management, based on the existence of an agreement of wills between the social collaborator and the Tax Administration and the trust which the Administration deposits on the collaborator, with a special relationship being established between both parties.

Collaboration agreements are signed by institutions and organizations representing social, labor entrepreneurial or professional sectors or interests and may be extended to individuals or entities that are partners, associates or members of them. To this end, the interested persons or entities must sign an individual document of adherence to the agreement, which expressly covers the acceptance of the contents thereof.

The authorization granted by the taxpayer in favor of the social collaborator should exist in any case, but it should not be delivered to the Tax Administration, unless the latter may request it. Therefore, the collaborator must preserve this authorization and have it available for the Administration. Electronic communications do not demand presentation of this authorization, and therefore, only the digital signature of the collaborating entity or person is required.

The authorization should refer to the electronic filing of the documents, without it being necessary to consider the filer as representative for intervening in other acts or receiving any type of communication from the Tax Administration on behalf of the taxpayer or interested party, even though these were a consequence of the document presented.

The mechanism of social collaboration and its presumptive representation system allows for fully achieving the simplification of the procedures and speeding up the relationships with the taxpayers due to the use of communication technologies by third parties.

In this way, taxpayers may profit from the advantages obtained through electronic filing (24 hours/ day, 7 days/ week, speediness in the process of requests...), tax professionals provide a better service to their customers and have the advantages of the virtual office, while the Administration provides a better service, obtains better quality of information and saves costs in the recording and physical handling of documents.

Another excellent example of collaboration is the campaign for the preparation and filing of the IIT returns. Participating therein, in addition to the SATA are the Autonomous Tax Administrations as offices for preparing returns with the SATA's aid program and sites for electronic filing through the SATA's Extranet, some local corporations as sites for preparing returns with the use of the PADRE

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system, Financial Entities as sites for depositing revenues and preparing and filing returns also with the aid program. Also collaborating are the tax advisers and the companies that develop the software for them, to the extent that such software includes a routine elaborated by the SATA which receives the information included in a return and generates the form with the contents of each one of the boxes and, if the adviser wishes to present the return on paper, it produces a points code. This code allows the SATA to recover the information directly without having to records the items in the return. It also allows the electronic filing of returns through the social collaboration mechanism.

With the SATA's aid program and the printing module it is possible that over 90% of returns are filed through Internet or on paper with the aforementioned points code.

As may be deduced from what has been stated, an authentic network of agents acts in relation to the taxpayer, using electronic solutions.. The effectiveness of this type of networks depends on the level of implication in a continuous process of deliberation, negotiation, commitment and consensus. It is for this reasons that in the case of the SATA, the role played by the Organization, Procedures and Institutional Relations Department is fundamental.

The possibilities of collaboration are practically unlimited if use is made of the computerized solutions. Collaboration proposals can be developed which, without them would be unimaginable. Thus, for example, a collaboration agreement was recently signed with the General Association of Notaries for the electronic provision of the tax identification number in the process of creation of corporations. In the Spanish case, corporations require an Identification Code issued by the SATA to undertake their registration in the Commercial Public Registry which has constitutive effects. In other words, those entities are not regular corporations until such registration takes place. By means of this agreement the notaries may obtain through electronic media the identification code for granting the corresponding articles of incorporation of the entity. The identification code will be a response message to another sent by the notary that will include in XML format, the information on the incorporation papers which the notary certifies. Based on that information, the SATA will value in real time, the fiscal risk of the entity, by analyzing, for example, the profile of tax compliance of

the partners or administrators. If there is no risk, the message is issued with the identification code (IC). If risk is evident, a message is generated, communicating that the assignment of the IC requires that the promoter of the entity personally visit the offices of the SATA.

The cycle concludes when the notary sends a new message by teleprocessing to the SAT indicating that recording at the Mercantile Registry has taken place, as well as the contents of the public deed that has been registered. In this way the SATA is aware not only of the fact that the corporation is a regular entity, but also of the changes that may have been made to the original deed. In the case of this assumption, the collaboration covers, in addition to assistance issues, issues on the prevention of tax fraud, as well.

4. THE ICTs AND THE PROCEDURES

Managerial procedures and their regulatory norms delimit the administrative action as regards their technical activity as well as the production of administrative acts. ICTs afford the possibility of facing challenges that without them would otherwise be impossible. The challenge actually involves undertaking the necessary reengineering processes in the procedures to provide the assistance services allowed by the ICTs. This is generally associated to normative changes.

One of these examples in the Spanish case is the assumptions of automated action provided in the recent General Tax Law. Administrative acts constitute a declaration of willingness (decisions or resolutions in a procedure...), judgment (consultative act, report...), desire (request from one entity to another...) or knowledge (administrative certifications) made by the Administration in exercising an administrative power that may be regulated or discretionary.

The declaration of this psychological state (will, judgment, desire or knowledge) must be made by the pertinent entity. By means of a competence norm one determines the extent to which the activity of a body has to be considered as the activity of the administrative entity. Competence is the measure of power of each body of the Administration.

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It has been possible to maintain this scheme within the framework of computerized management, where computerization is limited to assisting with the administrative procedure. It is a matter of computerized management aimed at the massive processing of files. The manager, in this case, the administrative entity, needs computerization to process the large number of files.

This scheme cannot be maintained if one opts for decisional computerization, which allows for making decisions without direct human intervention. These are automated acts that are perfectly applicable in the sphere of regulated actions where there is no margin for maneuvering by the acting body. Their content is limited to single out to a specific case, the effect predetermined by the Law. The presumed facts would be completely delimited in the norm which determines in an exhaustive manner, each and every one of the conditions for exercising the power.

The computerized action is applicable to the regulated acts (resolutive or procedural), to the extent the computerized application may be aware of the factual presumptions required for the application of the corresponding norm. Thus, an example would be the administrative certification of being up to date in compliance with the tax obligations, the computerized filing of requests...

The purpose is not to convert the discretionary powers into regulated powers based on a blind faith in computerization, or to establish the prevalence of the applications with respect to the juridical norms. The need for singular evaluations (intentional element in the sanctioning procedures...), estimation of timeliness (requests for postponement in the payment of debts) are reasons that justify the existence of specific discretionary powers that cannot be automated.

However, it does not seem logical that computerized administrative certifications of having filed a specific return cannot be issued on line. Currently, it is required that the incumbent of the pertinent body order its issuance. This act tends to be mechanical and delays the issuance, without serious reasons, 48 hours in the case of the State Agency of Tax Administration. Development of regulations of the aforementioned law is anticipated in order to deal with the issuance of administrative certifications as automated acts, which will allow for its issuance at the very moment of the request, when it is done through Internet.

The response generated by the computerized application is based on obtaining the factual elements that are relevant for the norm that defines the regulated action and applying the effects provided for each alleged type. There is no inconvenience for a computerized program, if the necessary information is available, to verify the alleged act and compare it with the legal type. In fact, the computerized application may be programmed to initially classify the assumed act and generate a result or action for each one of the presumed acts contemplated in the norm. There is absolute parallelism between the form of legislating (each presumed act produces a juridical effect) and that of programming based on a table of decisions (there is a decision anticipated for each situation or case).

However, in order to apply the decisional computerization in the automated production of regulated administrative acts, it has been necessary to solve some problems:

The first problem lies in not having to relate the decision that may be produced by the computerized application to the declaration of willingness, judgment desire or knowledge of an individual who is the incumbent of the entity, which by virtue of the norms of assignment of competencies may act and work on behalf of the Administration at the time of producing the administrative act.

In the automated action there is no individual solution from the individual who is the incumbent of the administrative entity. Who then is the author of the administrative act? Is it the incumbent of the administrative entity or the Administration?

The solution given to this issue has been to openly recognize that the author of the act is the Administration itself, with its electronic signature or seal of juridical person making it an obligation to determine which bodies are responsible, not of the issuance of each single act, but of the programming and maintenance of the computerized systems and of the auditing and control of their operation.

The second problem involves guaranteeing the juridical security of the taxpayer. Since these are regulated acts, it would be unnecessary to public the conditions of operation of the computerized applications, since the norm already covers the list of presumed acts. It should be possible to verify and rectify the

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classification of the assumed act and the correct application of the effects provided in the norm. There is no reason why the control of the determining acts (the program does not take into account all the factual elements, or does not measure them correctly) and the application of the norm (the program does not function correctly or not producing the results anticipated in the norm) should be less in the automated actions.

For effectiveness purposes it has been determined that the administrative review corresponds to the administrative body that would be assigned the responsibility with respect to the non-automated procedures. The electronic document or message generated should include the identification of the pertinent body for this review.

The third problem involves deciding to whom the responsibility of the automated action will be assigned.

The direct or indirect responsibility (direct of the Administration which has internal repercussion) for the operational errors of the computerized application will be attributed, as the case may be, to the competent body in charge of the programming and maintenance of the computerized systems (normally the head of the Computerization Department) or to the competent body as regards the definition of the operational specifications of the computerized application and quality control thereof (generally the Functional Departments.).

The collaborative operation among Administrations, as analyzed further on, may take place through the electronic exchange of messages. The Administration processing some specific procedure may automatically generate an electronic message requesting the other Administration for an administrative certification. This would be a good example of the automated production of procedural acts.

The registration of writs or requests received through automated media constitutes another example necessarily requiring automated action for allowing the issuance of receipts with the digital signature of the Administration on any day and time in the so-called 24x7 Administration. One must recognize the peculiarity of the computerized registry, since this type of registries is obliged to allow the filing of requests, writs and communications every day of the year, twenty four hours a day. The only way of fulfilling this obligation is through the automation of the registry.

However, it is also possible to undertake certain discretionary powers through automated action.

Thus, for example, nothing should prevent the Administration from favorably resolving automated requests for postponement from debtors fulfilling certain conditions of which the computerized application may be aware, such as the tax base of the individual or corporate income tax and the amount of the debt (to determine if the treasury insufficiency is transitory), the level of compliance with his tax obligations, the economic activity exercised, the number of workers, the sales figure... as decision-making elements.

The massive processing of requests for postponement is already a reality at the State Agency of Tax Administration, thus generating proposals for solution which the competent entity only signs.

If there would be the possibility of solving, by automatically granting requests for postponement for an amount lower than a specific threshold (above which it is necessary to provide a security) a request filed automatically could be answered in real time.

The purpose that justifies the discretionary power is in this case, to ensure payment of the debt in the assumption that there may be temporary treasury insufficiency without initiating executive actions that may irreparably affect the economic activity of a business. Postponement should not be granted if it is believed that the extended debt will not be paid.

To the extent the information system is aware of the decisions regarding postponement that have been made for many years and the level of recovery of the extended debt, it may also be aware of the profile of the debtor and other elements of information that are related to the recovery of the extended debt and the unrecovered extended debt.

It would only be a matter of solving it favorably. If the result of the valuation made by the application were negative, a second valuation should be made by a competent official, prior to individually solving in one sense or another in the case of this assumption.

The SATA has also considered the possibility of using the technologies aimed at the management of knowledge to automate the discretionary action. A practical example of this is the concrete

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case of customs management, which has rendered evident the advantages for individuals of the management of knowledge and automated action.

To withdraw goods from a customs warehouse it is necessary that the customs authority may have agreed the clearance thereof. This action is called customs removal and should be considered as an administrative act. The receipt in electronic format of the corresponding returns (summary return and import or export return) and the computerized treatment of the information allows for the goods to be cleared in a matter of minutes, from the time of the filing of the import or export return. The customs removal in the case of goods classified as green channel (that do not require physical verification or the presentation of additional documentation) is already produced in an automated manner.

As has already been described, the consignee (who hires the transportation of specific goods) may file, through computerized media, the summary return which is the return through which the goods are identified. This return may be filed prior to the arrival of the goods to the customs territory, in order to speed up customs procedures. The information included in the summary return serves to initiate the customs procedures, while waiting for the return in relation to foreign trade that will be filed by the importer or its representatives. To detect possible irregularities as regards smuggling and drug trafficking, computerized risk analysis procedures are used.

The risk analysis tools are based on a system of filters of two types: Filters involving issues unrelated to customs clearance, but whose control must be performed when the goods are at the customs warehouse - such as measures dealing with external sanitation, veterinary sanitation or phytosanitary inspections - and filters related to customs management, which are the result of taking into consideration the experience of the customs inspectors, such as the value of the goods, comparison between the theoretical weight and real weight of the goods, their origin, commercial, sector, itinerary followed by the goods.

Following arrival at the port or airport, the goods remain in a temporary warehouse until the importer or its representative presents the corresponding return and indicates the destination (import, export, transit, indefinite warehousing...). If it is to be

imported for commercialization or immediate use, customs duties and VAT on imports will be assessed. Access to the contents of this assessment may be made through computerized media.

Thus, customs management is fully computerized, which makes processes homogenous at all Spanish customs offices and also that all goods be treated identically, regardless of whoever may be the final importer.

Customs removal and the corresponding administrative assessment are actions capable of being automated. The Customs Administration has the power of undertaking the physical examination of the goods. The decision as to which goods should be the subject of inspection and which ones not, may be based on an expert system that may incorporate the knowledge of the customs inspectors. What better way to avoid any theoretical case of arbitrariness? It is the computerized program which covers the filters explained by the experts in customs control which decides the goods classified as green filter which may be withdrawn and which ones must be the subject of a physical verification.

The assessment process is a fully regulated action and also susceptible of being automated. It consists of taking into consideration the information received in the returns and the mechanical application of the Customs Tariff.

At the end of each period, an evaluation is made of results achieved against each filter. Measurement is made of the number of issuances (containers) that have been the subject of inspection and the fraud discovered. In this way, new explicit knowledge is achieved, on the basis of the explicit knowledge applied. New filters are established, not only from the contributions made by the customs experts, but also because an analysis is made of the common characteristics found in alleged fraud and which filters bring about goods results and which ones not.

The Tax Administration has also decided in favor of the so-called horizontal services, especially in the computerized relationships.

This means that it has waived the application of exclusive or sectorial solutions and has opted for seeking and developing, as appropriate, solutions that may serve any Administration. The purpose behind this is that the mechanisms of relationship which the taxpayer may

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always be the same. By way of example, two assumptions are mentioned in this paper: the identification mechanisms, on the one hand, and the single electronic domicile, on the other.

As already mentioned, at a distance identification may be achieved in three ways:

1. Through that which is known and which knowledge is shared with the other party so that the latter may recognize it. This would be the case of a key work. It is thus a matter of a shared secret that only allows for relationships between two parties. Therefore, it is not a horizontal solution.
2. Through what one has and makes available to any other party. It should be something that is held only by the party that identifies itself. This is the case of the electronic identity certificates. It is anticipated that these electronic certificates be included in the near future in the National Identity Document issued by the Ministry of the Interior. This is the solution used by SATA. Currently the SATA recognizes the certificates issued by up to fifteen certification authorities.
3. Through what one is. These are the biometric systems such as the iris of the eyes, fingerprints. These are systems that require that the user have available hardware and software whose use is not yet extended. The SATA does not use them yet.

The possibility that the Administration may notify through Internet is an activating element of Electronic Administration which allows for developing chains of services on permitting the automated relationship to be bilateral. Along with electronic identification, it is one of the most important horizontal projects. The value added it provides is that it allows the Administration to initiate the computerized relationship.

Some typical notes of the computerized notification in the Spanish case are the following:

1. Consent from the interest party is required. This indication should be made for every Administration and procedure.
2. The generic term of the electronic address is established, which should be unique for all computerized notifications by the Administration.

3. Receipt of the contents of the act will be understood produced for all legal purposes, once access to its contents in the electronic address takes place. That is, the addressee will have to decipher the message.

In case there being evidence of receipt of notification at the electronic address, ten working days would elapse without access to its contents, it will be understood that the notification has been rejected, for which reason it will be considered as made for all legal purposes. The principle of actual receipt gives in to this assumption vis-à-vis the principle of availability, if there has been no access to its contents within the following ten days.

In order that it may be a valid solution for any Administration, the electronic address lies with a trusted third party, which is the public Post Office that acts as depository of the administrative electronic addresses.

Another aspect which the procedures must recognize is the possibility of intensifying inter-administrative cooperation through computerized solutions.

There are two modalities of electronic cooperation.

The first allows cooperation in the establishment of a procedure, whereby an Administration or body called the petitioner requests through computerized means a specific content from another that becomes the Administration or body providing the informative contents requested.

It happens thus, for example, in the processing of a request for aid before an Administration. The Administration processing the concession of the aid, obtains from the State Agency of Tax Administration, the necessary informative contents to know whether or not the petitioner is up to date in compliance with his tax obligations.

To this end, the Spanish norms provide that, whenever the interested party thus authorizes it, administrative certificates on paper may be substituted with computerized certificates or data transmission.

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It affords full validity to the electronic exchanges of messages containing the information required by the Administration establishing the procedure, on anticipating that “the presentation of certificates provided in the regulatory norms of procedures and administrative actions currently in force, will be understood as substituted for all purposes and with full validity and effectiveness by the transmissions of data made according to the provisions of this article.”

This involves the provision of data of a personal nature, for which reason the aforementioned norm states that: “Every transmission of data will be made at the request of the processing body or entity, identifying therein the data required and their incumbents as well as the purpose for which they are required. The request will indicate that there is express consent from the incumbents involved, unless such consent may not be necessary.”

Tax Administrations are Administrations issuing a significant number of administrative certifications, in particular certifying the fact of being up to date in compliance with tax obligations to be used by other Administrations solving the concession of scholarships, subventions and aid. That is why the SATA allows these Administrations to provide citizens and businesses these certifications in their name through electronic data exchanges. In 2004, this system prevented almost 5,000,000 taxpayer visits to the SATA offices.

Another cooperative operation modality consists of having the taxpayer visit only one Administration to file a request it would have to file in several of them, whereby the first one takes charge of undertaking the processes in the others. It is an operating modality known as the single window.

One type of single window is the electronic single window. What is pursued in this case is that through a single click one may undertake procedures with several Administrations or bodies of the same Administration. Thus, for example, the SATA is working with other Administrations in order that it may be possible to report the change of domicile to a single Administration, which would transfer the communication to other Administrations through computerized media.

It is a matter of entrusting to one Administration or body to transfer a request of which it may be aware to other Administrations or bodies that may be involved. By using the computerized transmission of messages from the first one to the other, prevents the individual from having to go to other administrative bodies to file some other requests.

Each one of these requests or messages will be registered in the corresponding computerized record, which should generate and return an acceptance code for each of the requests received, which in addition serves as registration number.

This operational system requires that the bodies receiving the computerized request acknowledge receipt immediately and, accordingly in an automated manner. This does not mean that the request must be handled instantaneously. Rather, they must limit themselves to register the message received, thus generating an acceptance code.

The entity that transmitted the request must transfer this code of acceptance to the petitioner, it being possible to do so through Internet.

5. THE ICTs AND THE INFORMATION

The Tax Administration carries out a very intensive informational activity. Information is considered as a success condition in the struggle against fraud as well as in the performance of taxpayer assistance activities.

Since its establishment, more than 20 years ago, the information system at the Spanish Tax Administration was conceived to provide an integral vision of a taxpayer. It was decided to use the data base structure and any separation of information due to contents or function was avoided: A single information system for all taxes, for all taxpayers and for all procedures.

The SATA considers that not only should the information available be accessible to its employees with the due security measures that may guarantee their appropriate use, but also that a specific type of information may be directly consulted by the holder thereof. This would be the case, among other assumptions, of access to a

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taxpayer's information during the term for filing Individual Income Tax returns that could be important for preparing the latter.

In the Information System of the Spanish Tax Administration, one may distinguish two types of information. The first corresponds to data. This is information in structured format. The data are filed in computerized files in the form of registries. Within each registry, each type of data occupies a specific position. One begins with a pre-established structure. This allows the programs managing the information to locate the information needed.

The information in structured format may be defined as data that have been processed in such a way that they may be directly treated by the application programs; for example, according to the place where they are located in the data base or specific labels that explain their meaning. In the first case, their location explains the contents and, therefore, a program may interpret its meaning without human intervention.

This has been the first step in all the information systems.

The sources of this type of information in a Tax Information System are mainly two:

- the returns of taxpayers. The data included in their returns may be their own or be imputation of information. In this case it deals with data that affect third parties: Purchases and sales made to suppliers and customers, compensations made to employees and their corresponding withholdings, dividends paid by a commercial entity to its stockholders and their corresponding withholdings... The more imputations of information existing in the information system, the better they may contribute to the fiscal assistance and controls tasks; and
- the organization's own activity. If the decisions that support the administrative activity are made through computerized applications and the documents that serve as basis of this activity are produced by the computerized system, the information system is enriched with the data from this activity.

The activity carried out by the Administration with a specific taxpayer is based on the information available that may affect it. A relevant aspect is, therefore, its quality. If the latter is not adequate it will be unduly bothered. The attributes determining the quality are their reliability, current importance, accessibility and adequate presentation.

The second type of information corresponds to documents received or issued, regardless of their support, containing data stored in unstructured format. It is a matter of having available in the form of an electronic document, a symbolic representation of the contacts maintained with individuals. Thus, for example, in the case of an appeal from judgment of an appellate court, the information in structured format would be the following data: identification of the appellant, date of filed, identification of the appealed act, if suspension of the act is requested or not. The information in unstructured format would be the image of the write for filing the appeal.

It may be requests or communications received or made through computerized media (electronic documents in text format), images from paper documents which may have been received or issued (electronic documents in image format) or even files in audio format of telephone conversations whose recording has been authorized, which allows the taxpayers to undertake certain procedures by telephone, provided they consent to the recording of these conversations that are stored in binary format in a computerized file. This file stored in computerized media is also an electronic document.

The SATA deems it advisable to consider an assumption that may acquire great relevance in the Administration's action, and that is the case of the digitalized images from original documents on paper, which are stored separately from the files. The procedures and officials only use these images. In those cases, what is stored electronically is not the "original" document but an "image".

Currently, not all returns received are digitalized, but rather only the returns that are used in a specific file. The remaining documents received and those generated in an administrative procedure are in fact the subject of digitalization.

The SATA digitalizes these documents to:

- guarantee access to the image of the documents, even though these may not be accessible since they are elsewhere;
- find out who accesses the information included in the documents;
- allow consultation by more than one person;
- allow consultation by the interested party under specific conditions;
- ensure preservation and integrity of the originals.

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In the case of computerized presentation of returns, documents are received that are initially electronic documents, where one must determine the contents of the items that must be stored under structured format. For this type of returns, no digitalization process is necessary. As of the time it is filed, the system has the return on electronic support.

Another type of electronic document is the audio files. The State Agency of Tax Administration, through its Telephone Assistance Center, allows the taxpayers to carry out certain procedures by telephone, provided that the interested party agrees to the recording of these conversations, which are stored in binary form in a computerized file. Among other procedures, worth mentioning are the confirmation and rectification of the draft Income Tax return, or the request for change of domicile. This type of file stored in computerized media is also an electronic document.

Another mode of electronic document is the SMS messages received to confirm a draft return. The messages of acceptance of confirmation of the draft may be consulted by the interested party through Internet.

On having available a repository of electronic documents, the SATA is capable of offering its taxpayers any link.

6. THE ICTs AND THE PUBLIC EMPLOYEES

On the one hand, public employees must benefit from the use of Information and Communication Technologies, since they contribute to achieve a balance between the needs, values and individual skills with the objectives of the organization of a Tax Administration.

The ICTs, must allow for carrying out the three types of activity which the employees of any organization may carry out: work, learn and share their knowledge.

The computerization of internal procedures contributes to increase their performance. The automation of procedures, the availability of information or knowledge required to do their job, and the redefinition of administrative procedures for taking advantage of the possibilities offered by the technologies should contribute to ensure that the result obtained by the Administration from its employees' effort will be greater.

It also contributes to increase the level of objectivity of the actions and to detect any margin of arbitrariness when recording any decision adopted.

The SATA's management considers it relevant that the Information System may provide information on the activity carried out by each employee.. This also allows for establishing an incentives system based on objective variables that evaluate the performance of each job.

Another element providing incentives is the offer of services abroad, based on the use of new technologies. The positive valuation of these services by the user, contributes to improve the level of identification with the organization to which they render their services. The public employee feels pride in offering its services to an organization that is well valued.

A relevant aspect is the cultural change which the ICTs introduce in the relationships between the taxpayers and the Administration and which the public employees must assume. Worth highlighting, among other aspects, are:

1. The greater participation of citizens in the definition of the action plans of the Tax Administration.
2. The permanent evaluation of the services rendered by those receiving them.
3. The greater transparency in the administrative action. The interested parties should be aware of the status of processing of their files, which are the problems found in their processing, processing times...
4. The need to eliminate the physical barriers between units of a same Administration and among different Administrations. The slogan "no wrong door" introduced by the Canadian Administration should be a reference. It is not enough to say "this matter is not my responsibility"; but rather one should be able to indicate the competent unit and offer the possibility of transferring the file to it.

7. CONCLUSIONS

The SATA considers the ICTs as one of the success factors in its various actions and particular, in the assistance activities.

They intervene as direct as well as indirect facilitators to the extent they allow the remaining factors to fulfill the assistance functions entrusted to them.

The participation of the ICTs begins with the definition and design of the activities to be carried out, allowing society to contribute its ideas and comments in a particular process of public information, through such mechanisms as suggestion boxes where, in addition, one may gather the opinions of the results perceived in their practical application.

The ICTs allow for promoting the possibilities of the remaining administrative factors, by allowing the achievement of collaboration mechanisms that would be impossible without them, making a reality of the reengineering of procedures for improving assistance services, as is the case of inter-administrative collaboration, obtaining maximum yield from any type of information to assist the taxpayer and ensure that public employees may identify themselves and feel proud to belong to an Administration that is in favor of the taxpayer who wants to fulfill his tax obligations.

Case study

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THE SERVICES

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CONTENTS: 1. Introduction.- 2. The Internal Revenue Service.- 3. How has the Institution worked toward achieving its objectives?.- 4. Description of Electronic Services and the SII Virtual Office.- 5. Technology at the service of voluntary tax compliance.- 6. Technology at the service of taxpayers' attention.- 7. Technology at the service of transparency.- 8. Personalization of services.- 9. Technology at the service of economic development and the country's modernization.- 10. Cost benefit relationship.- 11. Conclusions.

At the cordial invitation made by the CIAT, we will attempt to respond to the key questions that have been presented: How has the use of information technologies contributed to specialization, knowing customers, and tailoring the service to meet individual's needs? What has been the cost-benefit relationship regarding the implementation of information technologies in care and service processes? And how has the use of information technologies contributed to the promotion of voluntary compliance with tax obligations and collections? We will view the answers from the standpoint of our reality and experience as

Republic of Chile's Internal Revenue Service, in the implementation of information technology services and the use of information technologies for tax-related processes. From this stance, we will provide information and massive and permanent assistance to the country's taxpayers and economic agents.

1. INTRODUCTION

This paper will evolve mainly from the perspective of information technology-based services, implemented by the Internal Revenue Service for helping the taxpayer citizen-economic agent. We will concentrate on associated functionalities rather than on technologies employed. For a better understanding of this paper, we include a brief description of the Internal Revenue Service and the functions that Chilean laws impose on it, as well as the modifications made in the institutional structure that have emerged as a need to provide these services in a more efficient manner.

2. THE INTERNAL REVENUE SERVICE

The Internal Revenue Service (SII, acronym in Spanish) is part of the Chilean Tax Administration, which is also comprised by the Treasurer's Service, responsible for collecting taxes, and the National Customs Service, the purpose of which is to oversee customs duties.

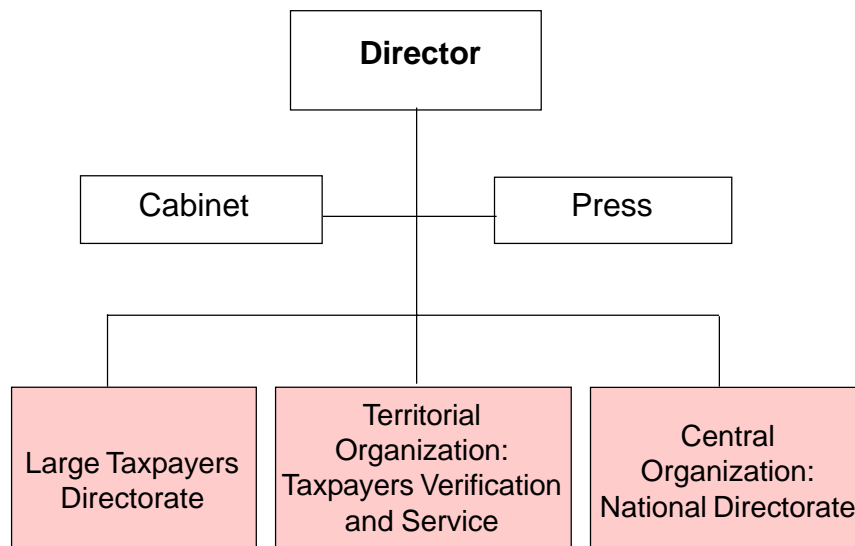
The Mission of the Service as a State Institutions is: "The Internal Revenue Service is responsible for managing with equity the internal tax system, for facilitating and overseeing tax compliance, for furthering a reduction of compliance costs, and for promoting the modernization of the State and the on-line tax administration. The above objectives are carried out to strengthen the level of tax compliance and the economic development of Chile and of its people."

The Service has had throughout its long history a modernizing calling among State institutions. Electronic government services have been stressed, allowing taxpayers to complete their entire tax cycle at the Service's Virtual Office on the Web (www.sii.cl). The vision that is pursued points to the development of an "On Line" tax administration

with an intensive and smart use of the Information and Communication Technologies (ICT). The aim is to enable taxpayers not only to comply in the most simple, expeditious, and economical manner, but also to make the management of their business easier and more modern.

This is how the Institution expects to be recognized, as one of the most modern tax administrations of the world, with high and growing levels of effectiveness in its actions, operating under quality standards that constitute a model for similar institutions. We expect to be recognized as an institution that contributes effectively to the country's economic development, leading the State's modernization process, and with fully competent and proven officials, committed with the strategic objectives of the organization. Taxpayers must perceive that the service that is provided to them by the Internal Revenue Service is always in keeping with justice and equity, making it easier for them to comply voluntarily with their tax obligations through the delivery of services that make this task simpler and less costly.

The Internal Revenue Service comes under the Ministry of Finance and is organized as a National Directorate, with main offices in the capital of the Republic, 16 Regional Directorates, and a Large Taxpayers Directorate. The National Directorate, in turn, is comprised by Deputy Director's Office and Departments.



3. HOW HAS THE INSTITUTION WORKED TOWARD ACHIEVING ITS OBJECTIVES?

Recently, changes have been consolidated in the management model used in the last decade by the SII, which reflect the new definitions of the strategic objectives for the coming years. Indeed, the SII traditionally used a management model that combined business visions by taxes and by functions. Thus, normally the function of Verification (and within it verification of Income Taxes and VAT), the function of Appraisals (related to the management of territorial taxes), and the Juridical function (which covers the work of Tax Courts, the defense of SII for legal actions taken against it, the filing of complaints over tax offenses, and the Institution legal advisory duties) were considered in a separated manner. In addition, the functions of Information Technology, Human Resources, Norms, Administration, and Finance were practically considered at the same level.

It should be pointed out that if in fact the modernization process of the Service has been around for some years and has been implemented by different administrations, today we can say that three strategic pillars guide the management of the Service: “facilitating tax compliance,” “building a tax administration by contributing to the economic development,” and “strengthening the verification capacity and control,” so that all actions, programs, and innovations that are carried out reflect the aforementioned pillars.

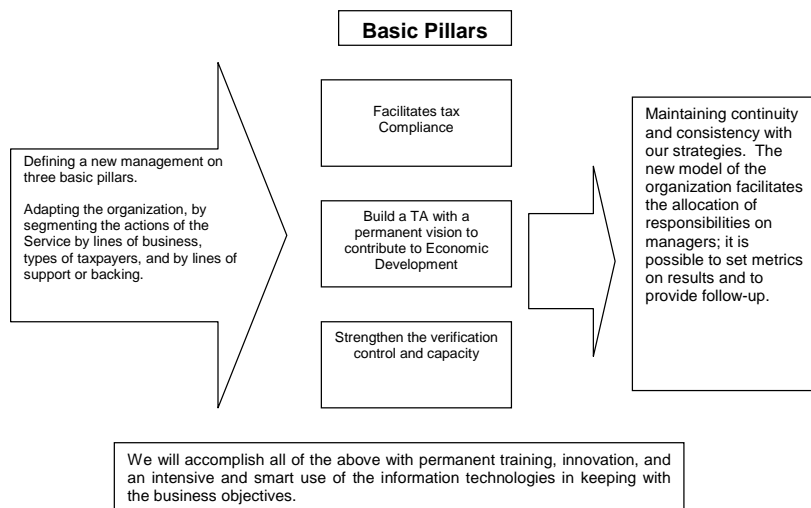
On the other hand, at the organic level there was always an expression of management in the territories, the Regional Directorates. They were assigned the responsibility of carrying out the operating functions of the Service, while the National Directorate was in charge of the definition of policies and the supervision of activities of operating units, assistance and support areas.

This manner of viewing the Service’s activities created a growing imbalance with the new management guidelines, which include a global and integrated view of the institution’s activities, and underscore the accomplishment of results by business line or complete process, assuming that for getting these global results it becomes necessary to integrate the results of complete processes, at the regional and central level, beyond each participating function. On the other hand, it became necessary to integrate into the vision of results - especially as regards the verification function - a series of related activities, which if in fact

required a large amount of resources, could not be associated with the results of the direct management of the function. This is the case of activities related to facilitating compliance with tax obligations, especially, lowering their monetary cost and the time required for the taxpayer.

Consequently, there is a need to segment the work of the Service by lines of business, by types of taxpayers, and by lines of support, so as to have a more broken down vision of the results and be able to associate attaining these with an organization more in keeping with this segmentation by business areas. Also, the allocation of responsibilities for directors is facilitated, making it possible to set goals and to provide follow up.

For the future, establishing greater segmentation by size and economic activity of companies is also being studied, breaking them down into different categories, such as small-sized companies, micro-companies, etc. This will give way to more specialized forms of service, and companies will consequently need to be managed in a different manner.



On the other hand, this new form of structuring the organization considers a strong use of the information technologies, for supporting all business lines in a combined work that enables the administration to assume the following commitments with confidence:

i) Commitment with the taxpayers

In his capacity as citizen and basic customer, taxpayers have both obligations and rights in the tax field, such as:

- To be well treated, in a courteous and fair manner, without discrimination, whether by gender, age, creed or cultural, social or economic condition.
- To be informed of his tax obligations and of the different processing requirements, especially taxpayers having more difficulty, allowing for true equality first and foremost.
- To the minimum possible cost and time for fulfilling their tax obligations.
- To keep the tax information delivered by the SII confidential.
- To be treated with transparency and in an expeditious manner in the verification processes.

ii) Commitment with transparency

The Service, in accordance with its power to manage the internal taxation system, must complement the Legislative Branch's decisions, interpreting them in cases involving little clarity or ambiguities. The Service at all times must apply the norms and exercise its legal powers. While carrying out this work, the Service will always attempt to:

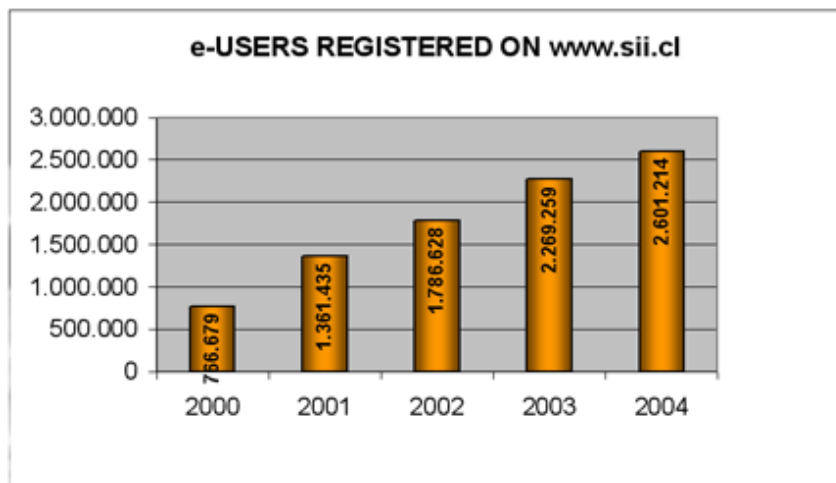
- Deliver all information in the clearest, most timely fashion, within easy reach of all taxpayers.
- Employ public, well-known, and unique processes.

iii) Commitment with the use of information technologies

- Permanent training, innovation, intensive and smart use of said technologies in keeping with the business objectives.

4. DESCRIPTION OF ELECTRONIC SERVICES AND THE SII VIRTUAL OFFICE

Since 1995, year in which the Internal Revenue Service made its first *Home Page* available, emphasis was placed on the Internet as a vehicle for making contact with taxpayers. This link is not only limited to the delivery of information but also to facilitating applications that will enable taxpayers to complete tax procedures and to facilitate tax compliance. This contributes to the modernization of the State through the intensive development and exploitation of the possibilities offered by a smart use of information and communication technologies.



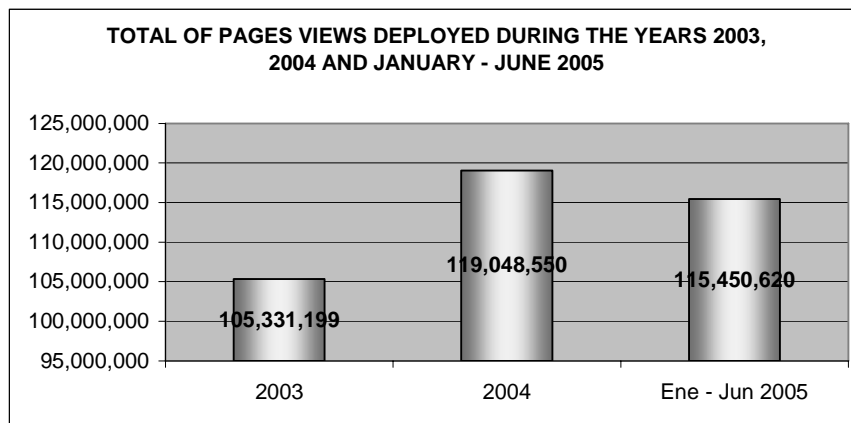
Added to the above, the SII has an Authentication System consisting of two alternative authentication mechanisms, the use of digital certificates or inputting the unique taxpayer identification number (Unique Tax Role) and a Secret Password that allows for a reliable identification of the person conducting the transactions or making queries on the Web site. Another concern of the Internal Revenue Service regarding the electronic services offered is security, because it is a way of giving users confidence and bringing them into the e-government policy outlined by the current State administration.

The Services offered by the Internal Revenue Service through its Web site can be grouped as follows:

a. Information Services offered to citizens

Circulars and Legislation Information. This section contains all the tax norms, as well as circulars and resolutions providing guidelines, reports or administrative interpretations. It is also possible to find on this section legal decisions regarding taxation matters.

Assistance information grouped by taxpayer classification. The information supplied in this section is structured in companies by size, companies by sector, individual taxpayers, activities subject to special systems and franchises, by process and tax field relevant news items.



**a. Transaction services at the Internal Revenue Service
“Virtual Office”**

This section groups all formalities that taxpayers can carry out through the Service’s Virtual Office, which include:

Tax returns and tax payments:

- Generation of Proposed Income Tax Returns and reception of those returns.
- Monthly Tax Returns.
- Reception of Information from Third Parties and Withholding Agents.
- Corrective Income Tax Returns.
- Electronic Payment of Revenues, Monthly Taxes, and Territorial Tax.

Other tax formalities available on line

- Electronic Invoicing for authorized customers.
- Updating name of real estate property owner.
- Change of domicile for professionals.
- Authorization of machine rolls.
- Obtaining secret password on line.
- Personnel opening contest.
- "On Line" Reports.
- Give your opinion on the quality of SII service.
- Beginning of activities, second category.
- Electronic fee tickets.

b. Taxpayer tax status follow-up services

- Query of filed tax return status.
- Query of background information of real estate property.
- Fiscal Assessment Certificate of a real estate property.
- Query of individual tax status.
- Query of individual tax stamp status on Internet.
- Taxpayer tax form.

c. Query Service for third parties

- Query of tax status for third parties.
- Verification of electronic documents received by the SII.
- Information of authorization of documents stamped at SII.
- Vehicle assessment.

In the near future the electronic tax compliance cycle will be consolidated with the actions that are listed below:

- Inclusion of beginning of activities, termination term, e-invoice and simplified accounting for small- and medium-sized companies (PYMES) in 2005.
- Development of digitized accounting for 2006.
- Massive adoption of the following electronic tax cycle, i.e. e-IA (Beginning of Activities), e>Returns, e-Payments, e-TG (Termination Term), etc.
- Promoting the massive use of the e-invoice as a legal document and furthering electronic factoring.

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- Introduction of the use of electronic powers.
- The tax refunds and individual changes will be changed to electronic form.
- The territorial tax will be redesigned to include the “On Line” self-filed return.
- The financial and human resource administration will be consolidated at the internal Virtual Office.

On the other hand, given the fact that we deem tax education a central issue when a self-compliance policy is adopted, we hope to implement an “On Line” training system for taxpayers.

5. TECHNOLOGY AT THE SERVICE OF VOLUNTARY TAX COMPLIANCE

As indicated above, one of the basic strategic pillars guiding the work of the Service is “facilitating tax compliance.” As a result, the Service is promoting the change toward an entirely electronic tax compliance and on-line cycle, making available on its Web Site all and each of the formalities and obligations taxpayers must comply with in their tax lifecycle. The goal is to help economic agents by not only facilitating their tax processes but also discovering the benefits and advantages of including information and communication technology (ICT) into their businesses, as well as increasing productivity and competitiveness in their activities. With this, the administration collaborates in furthering the digital inclusion and in closing the technology and education gap regarding information technology that we have as a country and that separates us from developed countries. An example of this is that as of today 82% of income tax collections are done electronically, while 87% of VAT collections are also done electronically.

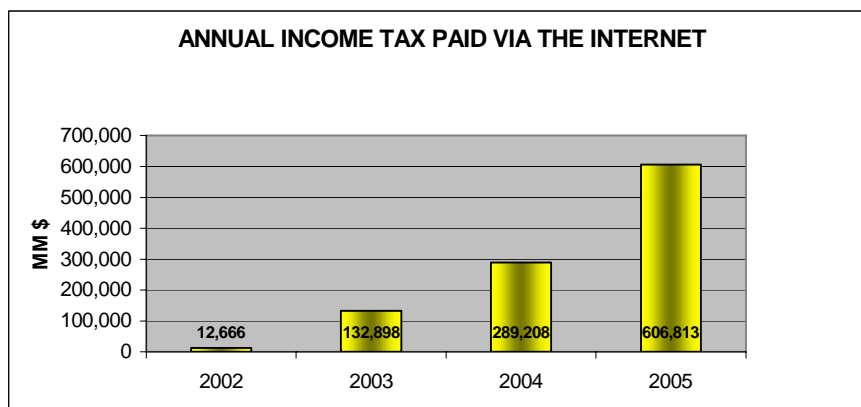
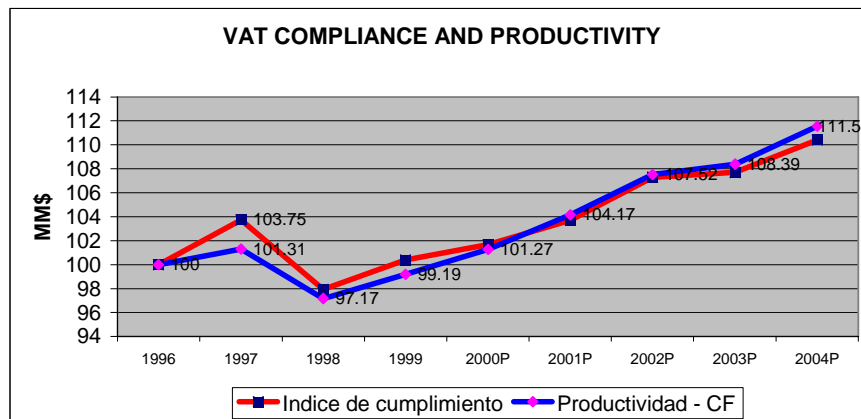
This vision does not only contribute to furthering voluntary tax compliance but also helps reorganizing businesses, reduces compliance costs, furthers business profits and productivity, and boosts competitiveness among taxpayers.

In order to do that, the design of the solutions planned has been geared toward strengthening and increasing the number of applications that enable taxpayers to conduct their formalities preferably in an electronic form, at the moment, place, modality, and manner in which they are naturally carried out. Applications guarantee at all times service continuity, security, and privacy in accessing the information, as well

as high availability of all the information necessary for carrying out their transactions.

In addition, improvements are permanently included allowing for a widespread use of Internet technology for Tax Returns and Monthly Payment of Taxes, e-Invoicing, Electronic Fee Tickets (BHE), Beginning of Electronic Activities (e-IA). In general, the formalities and services of the Internal Revenue Service Tax Office are furthered, bearing always in mind the economic cost and the possible difficulties the use of technology systems for the fulfillment of their obligations entail for taxpayers.

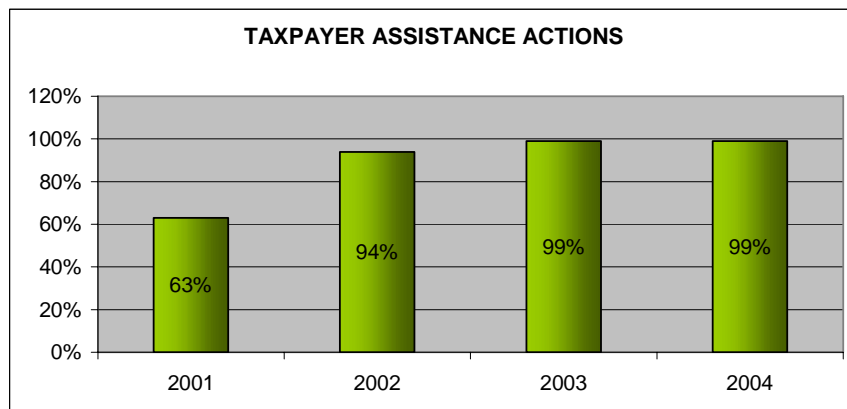
Last but not least, it should be pointed out that the Internal Revenue Service has taken special care to develop safe applications that may bring tranquility to taxpayers for conducting operations with the Service through the Internet.



6. TECHNOLOGY AT THE SERVICE OF TAXPAYERS' ATTENTION

Behind each interaction, service, assistance, query reply or taxpayer training, there are teams of people from different areas who attend to the different requirements. The quality of our services is experienced and measured in the interaction between the taxpayer citizen-economic agent and our personnel. Given the diversity of tax compliance, the assistance and necessary control for improving it, the service team is multidisciplinary with a high degree of professionalization and specialization. Taxpayer service is not only stressed in the areas most directly related to massive service processes, but is part of the across the board training for all areas.

Taxpayer assistance in the use of electronic services delivered by the Internal Revenue Service is given by the following services:



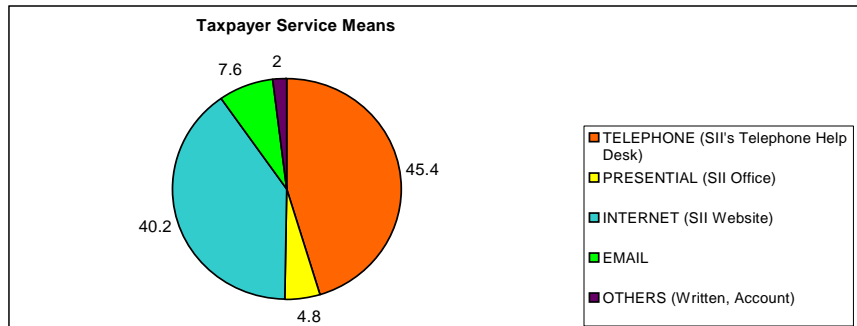
Help Desk

Through the help desk the Service delivers by phone information and timely and continuous assistance to taxpayers so they can answer the questions they have at the Service's virtual office. Help is given to the taxpayer for an efficient and timely use of information technology applications, made available for them at the Virtual Office of the institution's Website.

For the development of the aforementioned functions, we possess a knowledge base that contributes to delivering correct information and in the shortest possible time. In addition, we possess a query reporting system whereby those queries that cannot be answered directly by

the help desk, are sent automatically to second-tier resolution units responsible for answering and incorporating their answers into the system.

The most frequently used means by taxpayers for getting assistance, are shown on the table below.



TAC (Taxpayer Assistance Centers)

Recently, the Internal Revenue Service launched two important measures that will also point to deepening and strengthening the pillar of strategic management, geared toward facilitating tax compliance by taxpayers. Those measures involve the creation and launch of Taxpayer Service Centers and the Taxpayer Assistance Department at the National Directorate level, specialized and focused on reinforcing the service calling to taxpayers. This has characterized the work of the institution throughout different taxation processes and formalities that taxpayers carry out in their relations with the Service.

The Taxpayer Service Centers are conceived as the gateway for tax processing at the offices, through a service module with specialized personnel. In addition, it includes a self-service module which has to do with the strategic option the Service has followed of promoting, to the best of its ability, conducting transactions on the Internet.

Website

The Services Website also offers electronic services at its virtual office. It is also an information and taxpayer service portal, delivering information of interest, clearly segmented by type of taxpayer, up-to-date tax news, taxation processes, existing norms, and a complete set of frequently asked questions.

7. TECHNOLOGY AT THE SERVICE OF TRANSPARENCY

In addition to the contributions that the implementation of information technologies has accomplished in streamlining tax compliance and in increasing efficiency in the verification area, it has also enabled authorities to significantly improve transparency in the work of the Service delivering all of the information it has in a clear and timely fashion, within reach of all taxpayers without distinction. In this manner, both the tax norms and the procedures that are established are all public, well-known, and unique.

Therefore, through the Service's Website for instance, every taxpayer or any citizen may become familiar in a timely fashion with the existing legislation and norms that govern the Chilean taxation system

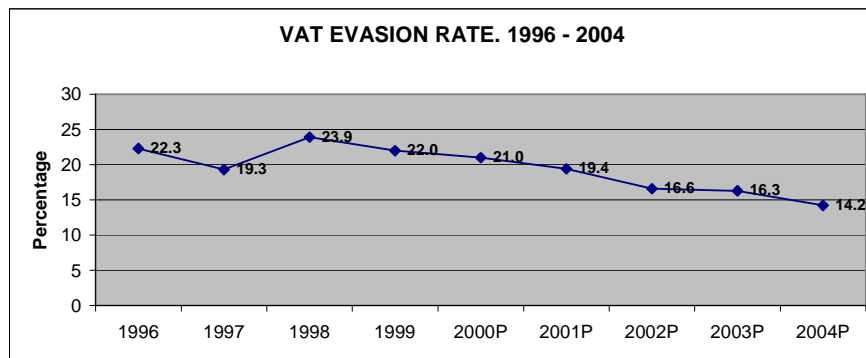
Also through Web applications, following proper authentication, taxpayers may know, verify, validate, and confirm all the information that the Service has on them, and in some instances on other taxpayers.

Another element that contributes to providing transparency is the clarity involving all actions or formalities that taxpayers carry out electronically on the Service's Website, because they may check at all times the status of those transactions.

In the same manner, the implementation of technologies has contributed to strengthening honesty among officials, given that through the recording of all work processes personnel carry out on the systems, it is possible to track down the information queried by Service's officials. This enables authorities to ensure to taxpayers that their information is properly protected, as it must be.

Another important fact that points in the direction of furthering the transparency displayed by the institution is the fact that the planning of verification will go public. This means that persons and economic agents will know beforehand when they will be submitted to an auditing procedure. In this manner, the verification, especially of large taxpayers, will become a public service because they will be advised beforehand when they will be subject to controls. Consequently, no one should feel surprised and everyone will know beforehand that they should have their accounting and tax reports and information available for analysis by Service's verification officials.

Another step toward transparency in the work of the Service will be the design of a new service that will enable taxpayers, following proper authentication, to know the status of their tax situation, and if an audit process associated with a verification process or termination term has been started. The main objective will be to provide an efficient and effective means for making more transparent and streamlining, from the standpoint of taxpayers, the works of verification launched by the Service. This applies to both, audit processes and the different types of taxes, as well as the closing of the lifecycle of taxpayers, with the termination term process.



8. PERSONALIZATION OF SERVICES

In search of specializing its personnel and properly serving taxpayers' needs, the Internal Revenue Service has made progress in the segmentation of its users and today has differentiated services for the so-called "large taxpayers," "small- and medium-sized companies," and "foreign investors."

For each of these segments, the administration has provided specific technological systems both in terms of support tools and in the information and help that is given to them.

Consequently in the year 2001, an organizational unit especially devoted to servicing so-called large taxpayers was created. It provides personalized services to large taxpayers.

In the case of foreign investors, in the year 2004, an Internet portal especially devoted to them was created, where they could find assistance, a virtual office, and all of the tax-related information they may require for conducting their operations, and in the English language.

TOPIC 3.2 (Chile)

On the other hand, and very specially, the electronic services offered to taxpayers have particularly benefited micro, small-, and medium-sized companies, which through the Mipyme Taxation Portal can see their tax compliance attuned to the development of their businesses on a modern technological platform which helps them improve efficiency, productivity, and competitiveness. It improves significantly their orderly registration and incorporation into the economy.

In this manner, in their transactions with foreign businesses to take advantage of the Free Trade Agreements, it may authorize their customers to review their tax compliance in the “On Line” Tax Administration, and utilize ancillary services that facilitate their tax compliance. These include: e-invoicing, simplified accounting systems, tax return preparation, tax compliance forms, and termination of their businesses “On Line,” in an expeditious manner and at a low cost. By doing this, companies may adequately terminate their registration with the tax administration, concluding a business activity that failed and allowing businessmen to start a brand new enterprise.

On the other hand, the streamlining and reduction of tax compliance costs results directly in a fair treatment for all levels of taxpayers.

9. TECHNOLOGY AT THE SERVICE OF ECONOMIC DEVELOPMENT AND THE COUNTRY’S MODERNIZATION

Another fundamental pillar of the current administration is having a tax administration that will contribute to the country’s economic development. From this perspective, upon insisting on innovation the Service is contributing to the economic and social development of Chile, by both optimizing collections and delivering the technological tools that will enable persons and companies to fulfill their professional and business objectives.

In this regard, for instance, Operation Income has a very important role to play because as the number of taxpayers-citizens-economic agents who file their tax returns electronically increases, they will also be using a technology whose implementation can also further their businesses.

From the standpoint of the country’s modernization, the Internal Revenue Service links its technological projects with the “Electronic Government” project of the administration and with the so-called “Digital Agenda.” It should be pointed out that the Electronic Government (e-government) is a management concept that merges the intensive use of Information and

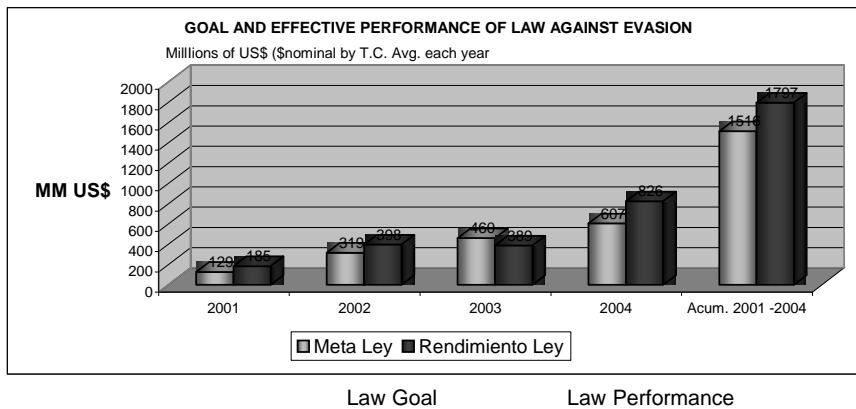
Communication Technologies (ICT) with management and administration modalities, as a new form of government. In the case of Chile, this concept was implemented as a State policy, with a presidential directive issued on May 11, 2001.

On the other hand, Digital Agenda (AD, acronym in Spanish) is defined as the result of a work started in April of 2003 with the establishment of the Digital Action Group (GAD, acronym in Spanish), presided over by the Government Coordinator of Information and Communication Technologies. It is comprised by government institutions, business sector organizations, academic institutions, and other State Branch organizations. The result of this effort is a broad public-private agreement on a strategy for the country, with a view to the commemoration of the Bicentennial in 2010, and an Action Plan for the 2004-2006 period. Its objective is to contribute to the development of Chile through the use of information and communication technologies (ICT) for increasing competitiveness, equal opportunities, individual freedoms, quality of life, efficiency, and transparency of the public sector. This is done by enriching at the same time the cultural identity of the Nation and its indigenous peoples. The Digital Agenda aims to put information and communications technologies at the service of these national objectives, principles which are observed and applied in all technological services that the Internal Revenue Service makes available for taxpayers.

The electronic government for tax compliance in Chile has demonstrated that it is possible to take advantage of the revolution in the information and communication technologies (ICT) for achieving world leadership stature.

An example of this is the creation of the e-invoice which revolutionizes invoicing, an essential link in the business cycle and the payment network, that is, the flow of money. It makes Business Reengineering possible while stimulating it, along with the reduction of costs, increase of productivity, and improvement of efficiency in business cycles. It also takes advantage of the external positive features of the system, improving the customer/supplier relationship while at the same time improving the management and efficiency of businesses.

TOPIC 3.2 (Chile)



10. COST BENEFIT RELATIONSHIP

The growing implementation of ICT in the processes and services delivered to taxpayers, have not significantly reduced the costs for the Internal Revenue Service. However, the benefits are reflected on various areas, such as more efficient verification, greater transparency in the work of the Service, ease and simplification in tax compliance, collaboration in the development of electronic government, among others.

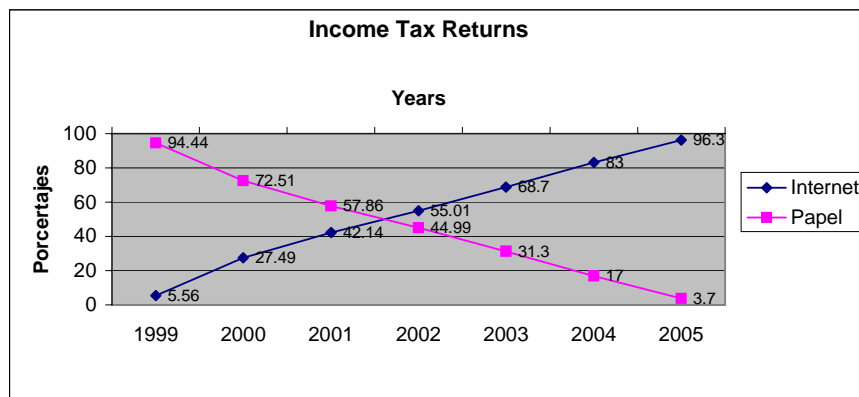
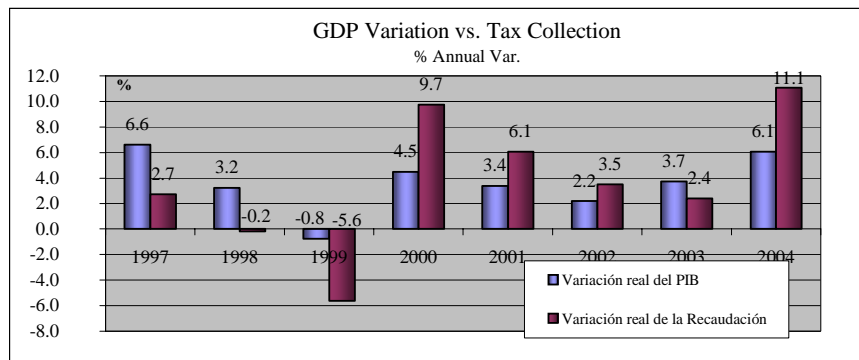
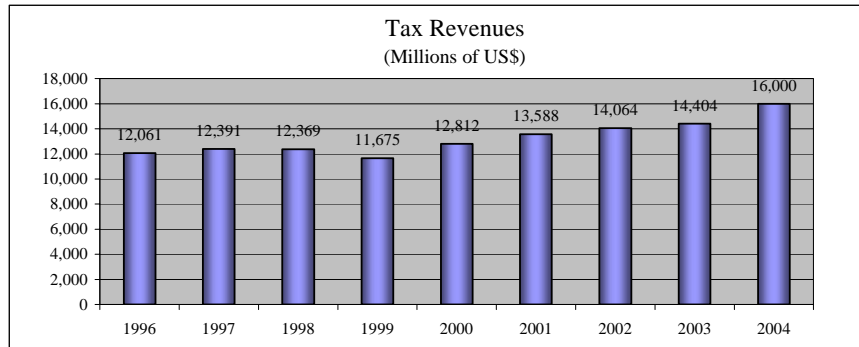
The evolution of tax revenues in the last few years evidences a sustained increase in the collection of taxes. This increase is explained by the growth of the economy, by the changes of the legislation, and by the work of the Internal Revenue Service. A recent study has determined that approximately 40% of the increase in collections is explained by the stepped-up efforts of the Internal Revenue Service as well as the application of technology in its collection processes.

Another result that shows the performance of the Internal Revenue Service, directly related to the above, is the level of compliance of tax obligations by taxpayers. The citizens' tax awareness is greater when tax evasion is dealt with effectively, when facilities and the appropriate information to fulfill tax obligations are provided, and when taxpayers know and have confidence in the good use and destination that will be made of tax revenues. Tax revenues in Chile account for 24% of the Gross Domestic Product, with collections amount to US\$ 17,000 million, which is equal to a per capita average of US\$ 1,085.

An important saving is the reduction of personnel costs in the handling of documentation. For instance, in Operation Income 2005 only 76,000

TOPIC 3.2 (Chile)

income tax returns were filed on paper forms, which is equal to 3.7% of the total of tax returns filed. This accounted for a reduction of 13.3 percentage points compared to the previous year, when said figure totaled 17% of the total of tax returns filed.



TOPIC 3.2 (Chile)

These resources have been earmarked for increasing the number of verification officials, strengthening their knowledge, and giving them portable tools for performing their work on the field.

On the other hand, it should be pointed out that the evolution in the use of electronic services has grown. In keeping with this, in Operation Income 2005, 96,30 % of the taxpayers filed their income tax returns on the Internet.

Finally, it is important to note that if in fact the Service's operating costs have not been reduced, the benefits have been fully transferred to taxpayers, considering also that the annual investment on information and communication technologies (ICT) is insignificant and barely accounts for 6% of the organization's budget (the average in developed countries is 12%).

11. CONCLUSIONS

One of the main benefits of our strategic option in the smart and efficient use of information and communication technologies (ICT) is that the traditional borders between the developed and underdeveloped world have changed. It should be pointed out that the electronic government services for tax compliance provided for by the Internal Revenue Service are among the most developed in the world. As a result, Chile has been invited to participate in the taxpayer services work group, under the OECD's Tax Administration Forum and the Tax Administration and Policy Center.

It has also been corroborated that the fact of promoting the digital inclusion of economic agents through electronic tax compliance allows taxpayers not only to take advantage of the use of the Internet and the information and communication technologies (ICT) in the field of taxation, but also to discover the potential, savings, and gains in efficiency and productivity in the conduct of their businesses. It also allows for closing the digital gap that exists with developed countries, which is considered an expression of underdevelopment for countries.

Finally, with all the progress that has been made, we are very close to consolidating the virtuous circle that has been promoted, based on what electronic tax compliances induces and furthers in the development of businesses, which will enable us to have a true "On Line" Tax Administration.

Case study

TOPIC 3.3

USE OF ARTIFICIAL INTELLIGENCE IN CUSTOMS RISK MANAGEMENT IN BRAZIL

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General Coordination Office of the Customs Administration
Federal Revenue Secretariat – SRF
(Brazil)

CONTENTS: 1. Introduction.- 2. Estimated Return on Action – Conceptual Basis.- 2.1 Maximizing Short- and Medium-term Results.- 2.2 Minimizing the Damage Caused.- 2.3 Influence of Fiscal Policy on the Estimation of Return on Action.- 2.3.1 Time.- 2.3.2 Cost of procedures and allocation of labor.- 3. Model Proposed for Customs Selection.- 3.1 General Structure.- 3.2 Risk Management and Allocation of Labor.- 4. HARPIA Project – General Overview.- 4.1 General Structure of the System.- 4.2 Customs Selection Management.- 5. Conclusions and Prospects for the Future.

1. INTRODUCTION

Audit case selection is defined as the process whereby taxpayers or transactions are selected for examination. It results from the application of “fiscal effort”, determining which taxpayers or transactions will be subject to audit and, indirectly, which ones will not for some time.

TOPIC 3.3 (Brazil)

In recent years, audit case selection processes have improved with the use of *risk analysis* techniques, aimed at systematizing and improving the means to identify taxpayers or transactions with greater probability of irregularities, thus ensuring the effectiveness of the audit action.

In spite of the progress made, this approach is still insufficient since it lacks the elements that can ensure an *optimized allocation of the resources available*, given the operational and economic restrictions inherent in tax and customs administrations' procedures.

It is therefore still necessary to develop instruments that, while complementing those that detect and quantify risk, can help estimate and rate the results expected in each case, making it possible to *prioritize the operations proposed* based on the contribution that each one can make to the attainment of the goals of the Administration.

Once the *priorities or hierarchical classification* has been established, the Examination Division is responsible for executing the corresponding actions, following the order defined up to the limit of its operational capacity, thus ensuring the execution of the actions deemed most relevant and, therefore, maximizing the Administration's results.

This paper presents a proposal to systematize the audit case selection process. The model discussed should be subject to a mathematical-computational solution within the framework of the Harpia project (Risk Analysis and Applied Artificial Intelligence), currently being developed by Brazil's Secretaria da Receita Federal together with the Aeronautic Technology Institute (ITA) and Campinas University (Unicamp).

The system proposed combines instruments for risk analysis and projection of results with a view to supporting risk management and improving the allocation of resources. Starting by finding the level and nature of the risk inherent in a transaction, the system tries to determine the timing for intervention and the right procedures, setting the order of priority for audit actions to be executed.

This paper has been organized as follows: Section 2 addresses the conceptual basis that guides the process to assess the expected

return on audit action. Section 3 presents the general structure of the customs audit case selection model. Section 4 provides an overview of the Harpia system. Finally, Section 5 offers brief comments about the future prospects of the project.

2. ESTIMATED RETURN ON ACTION – CONCEPTUAL BASIS

2.1 Maximizing Short- and Medium-term Results

A natural approach to optimize the use of resources consists in selecting the operations that can maximize the direct and indirect results obtained. For this purpose, it is necessary to establish an assessment methodology that can help compare the return on different actions.

Like with any performance assessment process, estimating the return obtained from an audit action should start by analyzing the objectives set by the Administration. This process includes the assessment of immediate results -or direct effects- and medium-term results, which, to a certain extent, represent the impact caused by the occurrence of the former¹.

At the forefront, therefore, is the assessment of the punitive and redressing nature of the action, the analysis of results being focused on estimating tax credit. In this context, the effectiveness of the action is directly related to the materialization of the credit. Thus, in addition to calculating the difference between taxes and applicable penalties, it is necessary to consider how recoverable the credit is -that is, the taxpayers' solvency- and how the action can be sustained in administrative and court proceedings.

We must consider that, even if they might be favorable from the operational viewpoint, immediate results cannot always be estimated from an exclusively tax or financial perspective. Especially in the case of customs, it is necessary to analyze many other dimensions that go beyond tax damages.

¹ Several references to this difference are found within the framework of public policy assessment. Cohen and Franco (Assessment of Social Projects – 3rd Edition, Editora Vozes, Brazil), for example, work with a topology that addresses assessment of effects and assessment of impact. In the authors' view, effects involve conducts or events of the project (or action), linked to the objectives set. Impact, in turn, can be understood as "the result of the effects of a project".

TOPIC 3.3 (Brazil)

In addition, time has a significant influence on the return on the action undertaken. The timing of examination can be a determining factor in the effectiveness of the results obtained. These issues are discussed at greater length in subsequent sections of this paper.

On the other hand, in the medium term, the focus of the analysis moves towards the promotion of voluntary compliance of tax and legal obligations. In this case, the result of the action should be estimated from the perspective of the impact on taxpayer conduct, not limited to those taxpayers that were subject to an audit.

Analyzing this aspect involves, however, serious methodological difficulties. The effective measurement of the change in taxpayer conduct would call for a prior estimation of the level of original non-compliance or, ultimately, the level of tax evasion. In addition, even after these obstacles have been overcome, there remains the problem of identifying the cause-effect relations between the action undertaken and the change in taxpayer conduct, separating the contribution of each audit procedure.

Although the scenario described appears to be discouraging², we must consider that the accuracy of the projection made is not as important as the establishment of a reliable comparative basis to prioritize operations that compete for the same group of resources, in order to maximize the results of the Administration.

From this perspective, mapping the presence of the tax authority could prove useful considering that it influences taxpayers' perception of risk, thus having an impact on voluntary compliance.

In this approach, estimating the return would be based on the visibility of the action or, in other words, on the size of the group of taxpayers that would supposedly see the action as an indicator of the Administration's punitive capacity. In turn, the greater the economic weight of the group or the level of non-compliance found, the greater the return.

² It is believed that the implementation of the selection model presented herein makes it possible to develop new instruments for analysis and simulation of taxpayer conduct. These instruments would benefit from both the quality of information captured by the system and the application of solutions based on artificial intelligence derived from those built for the purpose of risk analysis.

The identification of the group of taxpayers subject to the action should be flexible enough to include the “network of relations”³, the “class”⁴, the economic segment or sector of the industry that was subject to the action, as the case may be. The distribution of presence can still adopt other approaches (like the nature of the procedure executed), with a view to showing to the taxpayer that all legal aspects are covered.

2.2 Minimizing the Damage Caused

Unlike the approach presented in the above subsection, in which maximizing the results “obtained” is proposed as a measurement of the efficiency of the allocation of efforts, this subsection focuses on minimizing the damage caused.

Note that the discussion presented focuses on the customs context⁵, considering that the power to ensure compliance of administrative regulations, associated to the non-fiscal nature of the taxes administered, makes it more natural to measure the *damage caused*, which comprises dimensions that go beyond tax damage as the basis to estimate the return on action.

However, measuring damage is no minor task, especially considering the diversity and nature of the situations involved. In terms of administrative control, for example, there are several issues involved, like sanitary controls, public security or protection of the environment. In these cases, the difficulty lies in the need to define criteria that can help estimate the damage caused in each case, or establish some kind of grading among them.

There are at least two options to be considered. The first option would be to establish an “ex ante” value for each type of infraction. The weakness of this simple approach lies in the fact that the values established and those responsible for defining them would be subject to challenges from the different agencies and ministries with an interest in the matter.

³ Group of taxpayers directly or indirectly linked by corporate, commercial, professional or other relations. See chart of relations, subdivision 4.1.

⁴ Group of taxpayers with a common interest in a given matter, like the beneficiaries of special regimes like Recof or Línea Azul.

⁵ This does not imply, however, that some of the considerations stated cannot be applied to the general context of tax administrations.

TOPIC 3.3 (Brazil)

A second possibility is to determine the value of the damage based on the penalty imposed by the state for the offense found. This makes it possible to distinguish, for example, the offenses subject to a fine from those that are subject to restrictions on the movement of goods (subject to seizure). The damage could be considered proportional to the amount of the applicable penalty (in case of loss of the goods, the value of the seized goods would be used).

Although “democratic”, this proposal has limitations. In the case of drug trafficking, arms smuggling or piracy, it does not appear to be reasonable to estimate the damage caused only based on the value of the goods subject to seizure. In these situations, the proposal to determine a specific value by infraction appears to be more appropriate.

On the other hand, from the economic viewpoint, that is, the defense of competition, it appears to be reasonable to use the settlement value as the starting point to estimate damage. After all, the amount of taxes or duties applicable to the transaction corresponds, at least in theory, to the size of the competitive difference between the local and the imported product.

However, also in this case, it is necessary to look at the limits of such strategy, considering that the amount settled, even when the corresponding penalties are included, would not capture the damage effectively caused on competition. To improve the representation of the damage effectively caused it would be necessary to measure the contribution of the transactions or taxpayers subject to the action, in the specific market, which entails new methodological difficulties.

Having made these initial considerations, let us now analyze the effects originating in the assessment of the results expected from customs action based on the damage caused and not on the financial return effectively obtained by the Administration. This perspective brings to light the discussion about damage redress.

In this regard, it is worth noting that, in fact, except in the cases in which it is possible to stop the movement of goods, the damage caused on competition, or, in the case of infringement of administrative controls, the damages imposed on society are irreparable. In this sense, the action on the part of the State will be all the more effective when it has a greater capacity to prevent the damage.

In this approach, which focuses on the preventive nature of the action, the estimation of the expected return should take as the basis not the damage effectively caused but potential damage. Thus, instead of considering the damage resulting from transactions already made, the volume of transactions to be made by the taxpayer would be projected over a time horizon from the moment at which the infringement is detected, to estimate potential damage. This means that the interest in a given transaction would be directly influenced by the flow⁶ of transactions made by the company.

Note that giving precedence to preventive action does not suggest that the punitive role of the State should be dismissed. Given the impossibility to conduct all operations, it is important to consider these aspects when prioritizing and selecting those that will be executed.

On the other hand, we must recognize that, by providing for the application of material penalties for irregularities in foreign trade, the Brazilian law appears to admit some kind of redress, although imperfect, for the damage caused. So much so that recently it was decided that the penalty of loss of the goods may be converted to a fine for the corresponding amount when it is impossible to apply the former. In any case, as was said before, the punitive aspect is still present.

The use of a financial penalty as a way to “redress” or “punish” the damage caused should raise the same concerns as those relative to the recovery of credit and sustainability of the action, mentioned in the previous section. It is therefore necessary to distinguish the “recoverable” portion of the value from its nominal amount. On the other hand, the effectiveness of the action undertaken would be compromised. Also from the perspective of damage.

The estimation of damage would start to consider aspects of a different nature -potential damage, “reparable” damage and consolidated damage. In fact, it is for policy makers to emphasize one aspect or the other, based on the examination strategy defined, or establishes criteria to weigh or compare those dimensions.

⁶ From this perspective, if two companies caused equivalent damages, the examiners should prioritize the one that represents the greatest potential damage -the one that in the short/medium term is expected to make more transactions.

2.3 Influence of Fiscal Policy on the Estimation of Return on Action

This section aims at defining the outline of a model to assess the results of audit action, particularly in customs. Before proposing a formal model to prioritize operations, an attempt was made to identify the elements to be considered when estimating the return on the operation.

It is important to recognize, however, that no matter what model is developed, it will be based, at some point, on the adoption of appraisal criteria that make it possible to weigh different types of components (like tax damage and damage to the environment). This entails admitting the influence of some degree of subjectivity on the process of estimation of the results of the action, since such criteria will be defined according to the convictions of the person formulating them.

It appears to be reasonable to consider that operations with similar credit estimates may represent different expectations in terms of return, depending on the nature of the irregularity selected (with or without fraud involved), the segment of the economy the taxpayer operates in, or the date or period of occurrence of the events. In addition, such assessment may vary over time, accompanying the changes made to the strategy adopted by the Administration.

It is therefore natural that, to ensure that procedures are impersonal, the criteria adopted be derived from political guidelines formally established by the Central Administration.

Specifically in customs, given the dynamics of foreign trade, it is frequent to see objectives altered, especially short-term ones (like the need to focus more on a given segment of the economy or type of fraud). This suggests that the assessment model developed should be flexible enough to adapt to changes in the agency's policy, following the objectives defined for the period under analysis.

Beyond these elements, the fiscal policy should set criteria to consider time-related aspects and the cost of procedures, as explained below.

2.3.1 Time

The discussion about preventing or redressing the damage caused presented in subsection 2.2 shows the direct influence of time on the return on action. As was suggested, from the preventive viewpoint, for example, the decisions relative to audit case selection should be based on the projection of taxpayer future conduct, with less emphasis on the damage already caused.

Even when the perspective is not primarily preventive, it is necessary to recognize that, given the impossibility to audit all the transactions recorded, an emphasis on events that are more distant in time goes against the treatment of more recent situations, the effects of which can still be avoided. Some Administrations try to define a cut-off line⁷, indicating that transactions earlier than a given point in time are not relevant for examination purposes.

It should also be noted that distance in time from the moment at which the infraction took place has a direct influence on the feasibility of the action⁸. That means to say that the expected return on action declines gradually, as times elapses.

In addition to formal aspects relative to the expiration and decline of the credit, it is necessary to consider issues like the probability of finding the taxpayer and the evidentiary elements necessary to support the settlement. Not to mention offenses punished with the seizure of goods. In addition, the passage of time may damage the recovery of credit, on account of the possibility that assets be concealed or restrained due to debts of a different nature.

Thus, the decline of the return on the action as time elapses makes it necessary to determine in advance when the action would effectively take place, considering the Examination Division's operational capacity, the other operations planned and the possibility to conduct new, higher-priority operations before the one under analysis.

⁷ Since 2003, the Brazilian Customs has been working with a 24-month examination horizon, although the statute of limitation is 5 years. An exception is made for the control of special regimes, which requires a time horizon consistent with the term established for compliance with the corresponding obligations.

⁸ These aspects would be less significant in the group of "accredited" taxpayers –those that develop a permanent activity, with a significant asset base.

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We should also consider that, depending on the nature of the offense and the structure of the taxpayer, it may be more advisable to execute the procedure during or after clearance. However, in the cases in which the estimation of the terms for the execution of the procedure, based on the Examination Division's operational capacity, indicates that it is unfeasible, it may be necessary to alter the nature of the procedure proposed.

Finally, although it is technically feasible to work with historical data to project the influence of time on the return on action, the absence of a sound knowledge base requires the use of some appraisal criteria, or at least a combination thereof, defined by the fiscal policy.

2.3.2 Cost of procedures and allocation of labor

Naturally, the process to estimate the return on action can only be completed with the analysis of the costs involved, in particular, the number of man-hours used in the execution of the procedure. Thus, for the purposes of the ranking and optimization of the allocation of labor, instead of the absolute return, the return by man-hour obtained in the operation would be considered.

However, it may be noted that this approach is not free of restrictions, since resources are not totally interchangeable. At a given point, it is possible that there may be no single official qualified to execute a procedure at the top of the ranking, although there may be officials capable of handling lower-priority operations.

The distribution of labor itself in the various areas of expertise and execution units imposes limits on the expected return assessment model. In general, however, the percentages of specialized labor for each activity are stipulated by the Administration, considering the priorities set.

Finally, the cost of operation may include lower-impact costs, like the need to train officials in the execution of a given procedure and expenses incurred in moving teams around.

In customs, the assessment of costs for the importer or exporter, directly or indirectly associated with clearance time, becomes more relevant. These include not only the cost of inventory, storage and operation in the customs premises, but also the impact that slowness and lack of foresight in the control procedures applied may have on the company's contracts and logistics.

3. MODEL PROPOSED FOR CUSTOMS SELECTION

3.1 General Structure

The management model for customs selection shown in **Figure 1** presupposes the existence of risk analysis mechanisms that make it possible to assess, with a reasonable degree of confidence, the level and nature of the risks identified in a tax return⁹ or group of returns that may be subject to an audit.

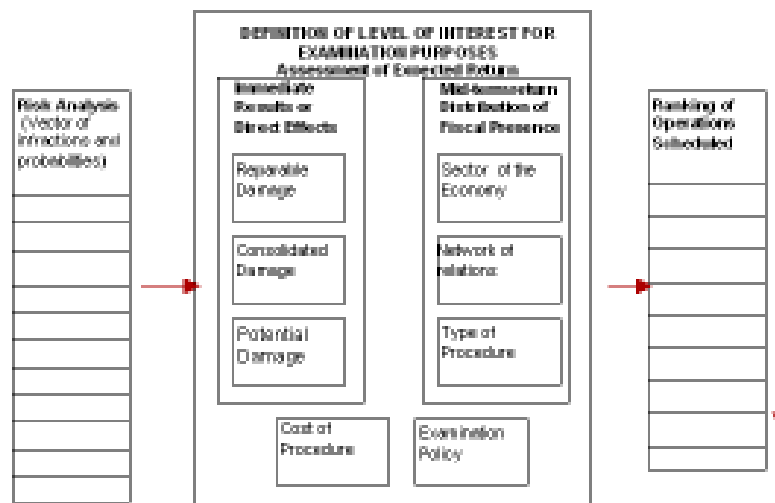


Fig. 1 – Estimation of the Return on Action

Starting from the “risk vector”, represented by the set of infractions suggested and the respective probabilities of occurrence, the “level of interest for examination purposes corresponding to the action” is estimated, based on the estimation of the return expected.

In an attempt to systematize the concepts discussed in the previous section, the calculation of the return is based on two fundamental components –the assessment of immediate results, or direct effects, considering the damage caused; and the medium-term return, based on the mapping of the distribution of fiscal presence.

⁹ In some cases, like in the procedure to rate traders, the risk assessment is not on the import or export transaction but on the importer or exporter themselves.

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Once the calculations have been made, the so-called level of interest for examination purposes translates the relevance of the action considering all the actions pending execution, determining its place in the “ranking” of operations scheduled.

The logic of the model is completed by admitting that the Examination Division should execute the corresponding actions, following the order defined, up to the limit of its operational capacity. Thus, the execution of the most relevant operations is ensured, maximizing the results of the Administration.

3.2 Risk Management and Allocation of Labor

In practice, given the diversity of contexts in which customs auditors act, the management model for the selection process provides for the use of four rankings for scheduled operations, relative to clearance, auditing, registration and monitoring of registers¹⁰.

Each one of these procedures may be subdivided into subordinate procedures which may be handled individually. Thus, the number of rankings effectively used will depend on the number of areas of expertise defined by the Administration.

Note, however, that, as indicated in Section 4.2, the selection management process is integrated, prescribing the nature of the most appropriate procedures for the treatment of the infraction, considering the type of infraction and the operational capacity of the teams, and defining its position in the corresponding ranking.



Fig. 2 – Customs Risk Management

¹⁰ In the specific case of the register of products, those procedures relate to the analysis, by experts, of differences in classification and appraisal, in an attempt to support and systematize subsequent auditing operations, ensuring a better use of fiscal efforts.

This model brings with it good instruments to assess the adjustment of the distribution of labor. It is important to note that it will be possible to estimate the general workload with an accuracy greater than that which can be obtained with the tools currently available, distributed by type of procedure and unit of execution.

In addition, with the establishment of criteria to compare the returns obtained through different procedures, it is possible to correct deficiencies in the distribution of labor.

Finally, it must be noted that by proposing the complete automation of the process of selection and distribution of operations, an attempt is made to eliminate interferences of a personal nature. However, this perspective is not absolute.

In fact, the Investigation and Selection divisions will make manual interventions to refine the risk assessment that is generated automatically, review the estimation made of the return expected, and, above all, find irregularities that may have gone undetected by the system. All those actions, however, are subject to approval by the system's control mechanisms.

4. HARPIA PROJECT – OVERVIEW

4.1 General Structure of the System

As was mentioned in the introduction to this paper, the purpose of the Harpia project is to promote the integration and systematization of the audit case selection process based on the application of computer intelligence techniques for risk analysis and evaluation of results derived from the operation.

This project is the continuation of the Radar system (Registration and Tracking of Customs Officers' Actions) the purpose of which was to systematize customs knowledge, integrating information about foreign trade transactions with economic and fiscal data, with a view to supporting risk analysis processes.

In this context, it is worth noting that although the first stage of the Harpia project prioritizes the customs selection process, the model is expected to be extended to the audit case selection processes for domestic taxes, from a perspective of an integrated view of taxpayers.

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Figure 3 below provides a general overview of the customs side of the Harpia system, with the systematization of the flow of knowledge and integration of risk analysis and selection processes. The following notation was used for a better characterization of the computer processes involved:

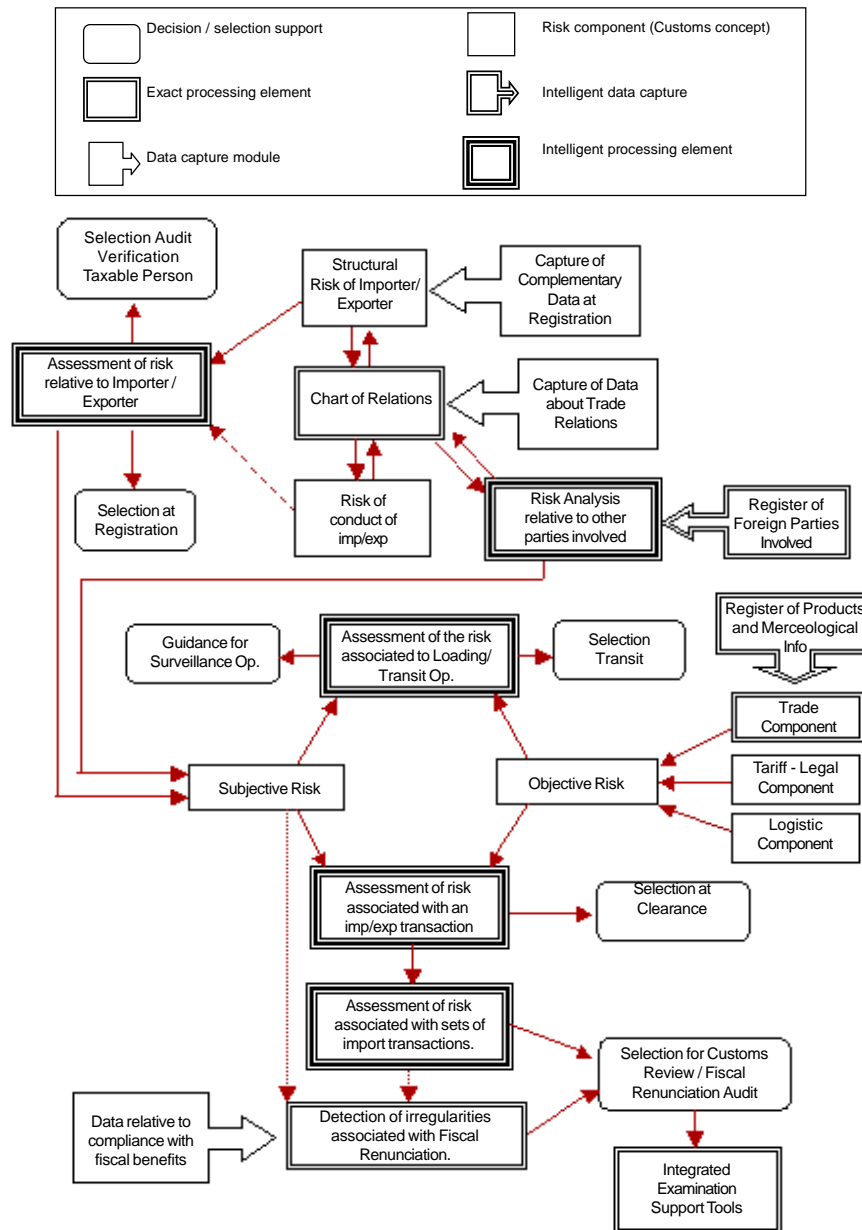


Fig. 3 – Harpia Project – Flow of Customs Knowledge

Note that the illustration is limited to the modules and processes that will be built within the framework of the project (to receive information still not available in SRF's databases, integrate in-house databases or those of external agencies, or process Computer Intelligence methods), without explicitly showing the connections with already existing systems and databases.

The risk analysis model proposed is based on the treatment of two fundamental components –subjective risk, inherent in the parties involved in the transaction, mainly the importer, the exporter and their respective foreign suppliers or buyers; and objective risk, inherent in the operational aspects involved, like trade, logistic and tariff-legal components.

One of the key elements of the model that deserves special attention is the “Chart of Relations”. This structure makes it possible to see the taxpayer's network of relations, which is made up of individuals or legal persons with which it has direct or indirect relations of a corporate, commercial, professional or even informal nature. Such relations may be inferred automatically from the systematization of the data contained in SRF's databases or collected by auditors involved in investigation activities.

Based on that structure, it is possible to extend the risk to the taxpayer's network of influence, which is a valuable instrument to infer the conduct of little known taxpayers. The network topology is capable of supporting the inference of risk profiles. In addition, the chart may also be used to assess the impact the action has on the taxpayers for whom it is visible.

Finally, the model systematizes the flow of customs knowledge, integrating the selection decision at the various moments of control: preventive (registration of traders), clearance (including loading, unloading and transit), and subsequent (several audit modes).

4.2 Customs Selection Management

The model presented in **Figure 4** summarizes the computer treatment of the customs selection process¹¹.

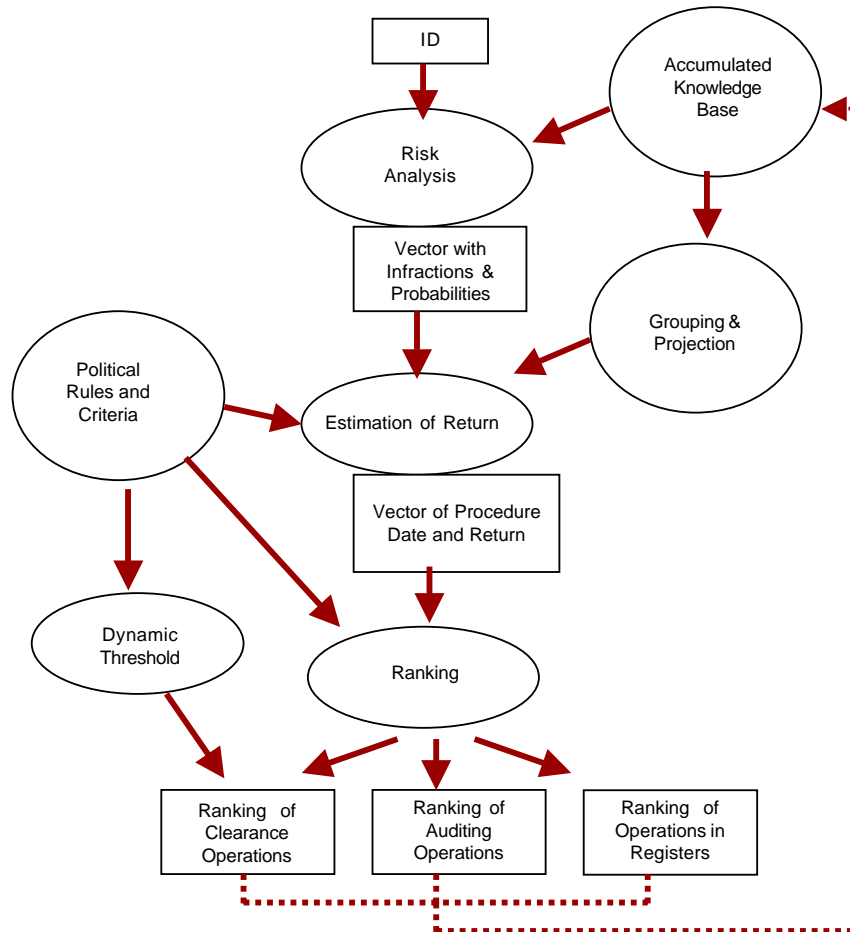


Fig. 4 - Harpia Project – Audit Case Selection Management

¹¹ Note, however, that the chart does not include the process to select importers and exporters for audit during the course of the rating procedure. Although structured in a similar way, the risk analysis model assesses the compatibility between financial capacity and traded volume.

Initially, the import (or export) declaration is subject to the risk assessment procedure, which combines the application of detectors of outliers and rating methods. The former seek to identify transactions that lie outside the expected pattern, while the latter are there to infer irregularities and their respective probabilities, based on the occurrence report.

In learning-based methods, the acquisition of knowledge is a dynamic process. This means that the diagnosis made at a given point in the process, like clearance, may suffer subsequent changes, which makes us think about the need to review the transaction in the audit procedure.

Thus, import declarations are repeatedly submitted to the risk analysis procedure based on the knowledge accumulated up to that moment.

In turn, the process to estimate the return on the action proposed follows the model described in Section 3. Like transactions¹² must be grouped together for joint treatment in a single audit and projection of the estimated return. Some methods are also used to project the volume traded by the company, to make it possible to estimate potential damage.

To calculate return, all the hypothesis of procedures compatible with the operation under analysis are considered, that is, action during clearance, audit or register monitoring procedure, considering the various possible dates of effective execution of the action.

Finally, having made the analyses described above, the model makes the decision to include the action in the ranking of procedures that is most appropriate for the treatment of the risk found. As was mentioned, such decision considers the expected return and the availability of labor to execute the procedure.

¹² Same importer, same infraction and, in general, same product.

5. CONCLUSIONS AND PROSPECTS FOR THE FUTURE

The primary purpose of the Harpia project is integrating and systematizing the audit case selection process, seeking to optimize the use of the resources available and maximize the results of the Administration.

The fundamental bases of the model proposed are the construction of a risk analysis module capable of estimating, with a reasonable degree of confidence, the nature and level of the risk inherent in a transaction or taxpayer, and a module to estimate the return on action that can make it possible to set the order of execution to maximize results considering that resources are not sufficient to make all operations feasible.

Behind these two modules lies a set of mathematical-computational models and artificial intelligence methods capable of supporting the necessary inference and prediction processes. Some of these techniques were subject to preliminary tests, producing encouraging results that justify the continuity of the project.

It is worth noting that the accuracy of the machine learning-based methods is directly linked to the precision and robustness of the historical knowledge base. This has required great efforts to enlarge the information collected, in addition to integrating and improving the quality of the data currently available to the Customs Administration.

This effort should also lead to improved control and audit procedures -like registers of foreign parties and products- and the availability of powerful analysis instruments.

The knowledge base to be enlarged with the implementation of the system, in particular the Chart of Relations, opens new perspectives to conduct further studies aimed at improving the model, mainly in connection with understanding and assessing the impact that the action has on taxpayer conduct.

Case study

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CONTROL

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(Canada)

CONTENTS: 1. Introduction.- 2. Compliance Background.- 2.1. Our approach to compliance.- 2.2. Compliance behaviour and the link to our compliance strategy.- 3. Using Information Technology to Make Complying Easier.- 3.1. Netfile.- 3.2. Efile.- 3.3. Telefile.- 3.4. My Account.- 3.5. Security and privacy.- 3.6. Results.- 4. Data Infrastructure for Better Decision Support.- 4.1. GIFI.- 4.2. Two-Dimensional Bar Coding.- 4.3. Industry classification.- 5. Using Technology to Support Tax Control Functions.- 5.1. Research infrastructure.- 5.2. Risk analysis methodologies.- 5.3. Cross-Program compliance profile.- 5.4. Compliance measurement, profiling & assessment system.- 6. Information Technology in the Future at the CRA.- 6.1. BISSI.- 6.2. Integrated Revenue Collections (IRC).- 7. Conclusion.

1. INTRODUCTION

The mission of the Canada Revenue Agency (CRA) is to promote compliance with Canada's tax legislation and regulations. To accomplish this objective, it uses a risk management approach that applies tailored strategies to the underlying factors that contribute to the compliance behaviour of Canadian taxpayers. Generally, this involves three basic

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approaches. The first approach involves facilitating compliance. This is the cornerstone of CRA's compliance strategy and is built on the premise that with the right tools and proper information, most clients will voluntarily comply with their obligations. The second approach involves assisted compliance. This involves applying a robust system of checks and balances to ensure that the law is properly understood and respected. The final approach involves the application of a program of responsible enforcement. These enforcement activities are necessary where the risk of non-compliance is high or potential consequences severe. Responsible enforcement action is undertaken to deter willful non-compliance and promote the fairness and integrity of tax and benefit systems.

This paper will articulate how the CRA uses information technology to enable us to best apply these approaches to achieve tax compliance. First, the paper will give the contextual background to the CRA's approach to achieving compliance. This includes how it gauges the compliance attitudes of Canadian taxpayers and how that in turn provides information that links our strategic approach to those behavioural characteristics.

The paper will then touch on the application of technology to make compliance easier for taxpayers. This includes providing them with convenient alternatives to the more traditional paper filing, viewing their account on-line, updating certain aspects of their own accounts, and making electronic payments.

Examining how IT is used to ensure that the right data is available to support decision-making related to achieving compliance will follow this. It will include how IT initiatives are supporting improved data integrity through the use of its 2 Dimensional bar coding initiative.

- The use of IT in the CRA's control functions will follow. The paper will touch on some of the most important initiatives underway in this regard. These will include standard practice items such as the matching of third party slips. It will also include relatively new initiatives:
- The development of a compliance laboratory to enable risk assessment researchers to have state of the art research infrastructure;
- The use of technologies such as expert systems, graphic link analysis and data mining techniques to better identify tax compliance risks;

- The development of a cross-program client compliance profile that will help us tailor strategies that more accurately address taxpayer compliance behaviour; and
- The delivery of risk profiles in an operational setting through the CRA's Compliance Measurement, Profiling, and Assessment System (COMPASS).

The paper then describes the future direction of IT in tax processes at the CRA. This will focus on efforts to establish an enterprise data warehouse with full business intelligence / decision support capabilities. It will also include the development of two initiatives aimed at integrating business processes for our compliance programs and revenue collections function. These integrated systems will include:

- A risk assessment / workload delivery component;
- A case / workload management component;
- A management information component;
- Remote, secure access; and
- ECollaboration tools.

2. COMPLIANCE BACKGROUND

Canada collects taxes through a self-assessment system. This system is based mainly on voluntary compliance, and voluntary compliance is based on mutual responsibility. Individuals, corporations, and trusts that are obliged to pay tax in Canada are expected to meet their responsibilities under the law. The CRA has a responsibility to maintain public confidence in the fairness and integrity of the tax system. This means providing ample support to those who wish to comply with the law, while taking appropriate measures to identify and deal with cases of non-compliance. Achieving the right balance between these two fundamental responsibilities is important for effective revenue administration.

The CRA takes these responsibilities seriously. In fact, they form the basis of our mission statement, which is “to promote compliance with Canada’s tax legislation and regulations through communication, quality service, and responsible enforcement, thereby contributing to the economic and social well-being of Canadians.”

Compliance with tax laws typically means filing returns on time, reporting complete and accurate information to determine tax liability, and paying

all amounts owing when due. Non-compliance occurs when any of these obligations are not met, for whatever reason. Achieving total compliance is not a realistic expectation. Honest mistakes on forms and differences in interpretation or application of complex laws are to be expected. As well, it is reasonable to expect that there will be a small minority within the population who will operate outside the public interest and choose not to comply with the law.

2.1 Our Approach to Compliance

A primary aim of the CRA is to achieve the highest level of voluntary compliance possible. The underlying belief is that most individuals and businesses are honest and, given the right opportunity, information, and tools, will voluntarily comply with the law. High levels of voluntary compliance return dividends to both clients and the CRA by reducing the costs of administration, and the burden and intrusiveness of compliance actions.

The CRA's approach for achieving compliance recognizes that there are many reasons for noncompliance that, in turn, require tailored programs. Our programs can be considered as a series of points along a continuum that include facilitated voluntary compliance, assisted compliance and enforced compliance, all supported by an effective redress capacity.

Voluntary compliance requires effort, time, and, sometimes, cost on the part of Canadians. To facilitate voluntary compliance, our strategy focuses on effective communication to inform and support all clients in meeting their obligations and receiving their entitlements. Our aim is to minimize the compliance burden for individuals and businesses through our continuous actions to streamline processes and provide high-quality service and support. CRA services include telephone and face-to-face communications, Internet-based information, plain language forms, guides, and publications, technical interpretations, rulings, and specialized problem resolution services.

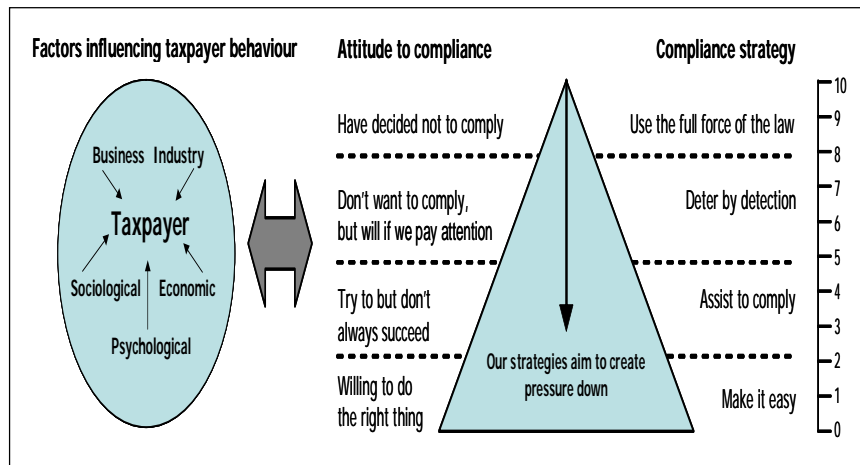
In addition to our broad-based communication and service activities, the CRA uses a robust system of checks and balances to ensure that the law is properly understood and respected. These fundamental controls allow the CRA to target its more resource-intensive efforts to areas of higher risk. This assisted compliance includes such things as information matching programs, reviews, verifications, examinations and audits.

For those involved in repeat or deliberate noncompliance, the CRA has a responsibility to take firm corrective action and to provide a deterrent that discourages this form of non-compliance in the future. Such activities include investigations and collections. In the most serious cases, the CRA carries out tax evasion and fraud investigations. The results of these actions can lead to fines and imprisonment. Our enforcement activities provide assurance that the law is properly understood and respected. They are guided by risk management principles and systems that help us in focusing our enforcement actions.

2.2 Compliance Behaviour and the Link to Our Compliance Strategy

The following graphic is one model for understanding the linkages between the general categories of compliance behaviour and the types of strategies that best support the compliance objective. It also notes the factors that typically influence behaviour and attitudes.

Graphic: Compliance Model Linking Taxpayer Behaviour to Strategic Approach



The CRA employs external organizations to survey Canadians on their attitudes towards compliance and to discern any trends in those attitudes. It also examines socio-cultural trends that may influence compliance. Results of these activities show that about 57% of Canadians could be categorized as either altruistic or deferent compliers, while only about 8% of the population could be categorized

as rebels. The remainder of the population (35%) could be categorized generally as situational non-compliers. The results of these surveys serve to support the CRA in validating or rationalizing its investment in its tailored compliance strategies.

3. USING INFORMATION TECHNOLOGY TO MAKE COMPLYING EASIER

For the majority of Canadian taxpayers who want to comply, the CRA's strategy is to provide them with the information and a variety of tools for doing so. The following initiatives, based on the application of sound information technology, are designed to support this objective.

3.1 Netfile

NETFILE is one of our electronic tax-filing options. Individuals use it to file their income tax and benefit return using the Internet. These tax returns must be prepared using one of the commercial tax preparation software packages that the CRA certifies to meet our system requirements. This option allows individuals to send their tax returns electronically without paying a fee to an efile service provider.

The CRA and the Government of Canada are committed to developing electronic options to better serve Canadians. Many Canadians already use home computers to prepare their personal tax returns. Using the Internet to file a personal tax return represents one more option that Canadians can use. Filing a return using the Internet offers the same advantages as TELEFILE and EFILE — faster, more error-free processing of the return. And taxpayers receive electronic confirmation of receipt within minutes of sending their tax return via NETFILE.

NETFILE allows the CRA to process a return much quicker, which means a faster refund. **In most cases**, with direct deposit, an individual can receive their refund in as quickly as eight business days, compared with four to six weeks for a paper return.

Netfile is secure. Both 168-bit and high-level 128-bit Secure Sockets Layer (SSL) encryption is used, which is the most secure form of encryption commonly available in North America today.

3.2 EFile

EFILE is a service that allows authorized service providers to send individual income tax return information to the CRA by Internet. Clients take their documents to a registered tax professionals who can prepare their electronic return and send it to us using EFILE.

The CRA has a Postal Code Search to help taxpayers find an EFILE Service Provider in their area.

The benefits of Efiling are similar to Netfiling.

Taxpayers get their refunds faster;

Their returns are more accurate because the CRA performs a series of computer checks and balances before the filing is accepted;

There are no paper returns to file and, unless the CRA asks for receipts, none are needed; and

Individuals can file early and do not have to pay an amount owing until April 30.

3.3 Telefile

TELEFILE is a free, secure service that allows taxpayers to send their return information electronically using a touch-tone telephone. They do this by entering their tax information using their telephone keypad.

TELEFILE is fast, secure, free, easy to use and is available seven days a week.

TELEFILE cuts down income tax processing time and eliminates the need to mail in a tax return. The end result is immediate confirmation of receipt and faster tax refunds.

TELEFILE also enables the CRA to reduce processing costs. To ensure privacy while using TELEFILE, the CRA suggests the taxpayer not use a cordless or cellular telephone, as this wireless technology can be easily intercepted or picked up by various electronic devices.

3.4 My Account

My Account is an online service that gives taxpayers the convenience and flexibility of managing their personal income tax, Canada Child Tax Benefit (CCTB), and GST/HST credit accounts on a secure Web site 7

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days a week, 21 hours a day. It is provided for individual use, not for use by third parties. It allows taxpayers to see information about their:

- Tax refund and balance owing
- Registered Retirement Savings Plan, Home Buyers' Plan, and Lifelong Learning Plan
- Income tax and benefit returns
- Account balance and payments on filing
- Instalments
- Canada Child Tax Benefit and related provincial and territorial programs payments, account balance, and statement of account
- GST/HST credit and related provincial programs payments, account balance, and statement of account.
- With My Account taxpayers can also manage their personal income tax and benefit account online by:
 - Changing their return
 - Changing their address or telephone number
 - Formally disputing their assessment or determination

In 2006, the CRA will offer an online service for representatives that will allow them, when authorized, to access information and services for their clients.

3.5 Security and Privacy

Canadians are among the world's most enthusiastic users of the Internet—including for government information and services. According to a 2004-2005 EKOS survey:

- 64% of Internet users are comfortable submitting personal taxpayer information over the Internet to the Canada Revenue Agency.
- 71% of Internet users have used a Government of Canada Web site in the past 12 months; 31% of Canadians say their most recent contact with the Government of Canada was via the Internet.
- 77% of Canadians having recent contact with the federal government said that accessing the Internet service was easy, compared to 67% across all services.
- 46% of all Canadians would be most likely to visit a government Web site to find information about a government program or service, making it the preferred method overall.

The CRA is committed to respecting the personal privacy of visitors to our Web site. Visitors can browse information, forms, and publications freely without being tracked - personal data is never collected. We use software programs to monitor our Web site, to identify any unauthorized attempts to add or change the content of our site or cause damage. We use firewalls to filter communications between outside computers and our computers. We do not attempt to link the address of the computer to the identity of individuals visiting our site, unless unauthorized access or an attempt to damage the site has been detected.

We make sure that taxpayers' personal and financial information is encrypted when transmitted between their computer and our secure Web servers, by using the highest form of encryption generally available. This ensures that computer hackers and other Internet users cannot alter or view data being transmitted between the taxpayers and us. Using very stringent security requirements, this technology allows their online sessions with us to be as secure as with any Canadian bank. As part of our security measures, they must use a browser that meets CRA security standards and settings to do transactions with us. They can test their browser to make sure it meets our standards.

We also are part of the Canadian government's Secure Channel initiative. Secure Channel is a vital component of the country's Government On-line (GOL) initiative, contributing to the finding by another survey that 64 percent of Canadians felt comfortable submitting personal income tax information online. By providing a common infrastructure to enable service integration, Secure Channel has proven to be crucial to citizen adoption and service growth of the GOL Initiative, and was part of what led Accenture to rank the Government of Canada the number-one global e-government for five years consecutively. The Secure Channel Project is a multi-departmental, public and private sector effort to build a common security infrastructure for government electronic business and service delivery. It is designed and operated on behalf of Public Works and Government Services Canada (PWGSC) by Team BCE, a consortium of eight industry leaders that is led by Bell Canada and includes Entrust. The Secure Channel is built upon Entrust security solutions and PKI infrastructure, and provides the foundation to maintain and promote user confidence in the privacy and security of their personal information when conducting e-government transactions. This capability is provided via

transparent, strong security that helps enable government-to-government, citizen-to-government, and business-to-government transactions and electronic service delivery. The continued success of the Secure Channel is evident in the increasing number of Government of Canada programs being connected and taking advantage of its services. All federal departments, agencies and other client organizations are now connected to the Secure Channel Network, and 25 programs are using the Secure Channel's authentication services (e-pass). In total, more than 772,000 e-passes have been issued to Canadian citizens and businesses. Canada Revenue Agency's "My Account" Service uses the Secure Channel, allowing Canadians to securely view their personal tax information, Child Tax Benefit and GST/HST credit information. They can also transact securely through My Account to change their return, change their address, and register a formal dispute.

3.6 Results

The following statistics are used to better understand how successfully we are using technology solutions to better facilitate compliance:

- Of individuals who filed tax returns, 49% filed electronically.
- 75% of Canadians surveyed knew of our Web site
- 66% knew they could find answers to income tax questions on the Web site
- 55% knew they could find out how to pay income taxes online by using the Web site.

4. DATA INFRASTRUCTURE FOR BETTER DECISION SUPPORT

In order to make the right decisions about compliance, it is important to have the right data and information. Furthermore, data integration and data integrity are of utmost importance. Much of the information is available during the processing of tax returns. The CRA has invested in IT infrastructure to ensure that the right information is data captured, and that it is as accurate as possible. Key initiatives have been used to give the Agency electronic access to the critical information needed to make business decisions. Some of these include:

4.1 GIFI

To support electronic filing and our corporate income tax processing system, we introduced the **General Index of Financial Information (GIFI)**, which is a way to collect and process financial statement information electronically. The GIFI is an index of items generally found on balance sheets, income statements, and statements of retained earnings. Each item has its own field code and allows us to collect financial information in a codified format.

Since 2000, all corporations include financial statement information using the GIFI. Non-resident corporations use the GIFI when they are reporting in unconsolidated Canadian funds. This GIFI is data captured and used in conjunction with other data sources in the risk management and risk identification processes and systems that are in place in the CRA.

For self-employed individuals, selected financial information is data captured. By working with private sector software developers, this information can be transmitted at the time of electronic filing. Additionally, the software developers have included validity checks that support a high degree of data integrity and accuracy.

4.2 Two-Dimensional Bar Coding

Last year, there were about 6.4M individual tax returns processed where they were generated to paper via the use of personal computers. Of this number, 3.4 million returns were prepared by tax preparers and 3.0 million of them by individuals. Most of these returns submitted are printed using software that the Agency has certified for interaction with EFILE or NETFILE. Once received, each paper return would normally have to be data entered by CRA staff.

The CRA has begun capturing tax information from computer-generated paper tax returns using 2-D bar codes. With the support of the software industry, when a computer generated return is printed their software produces 2-D barcodes that are subsequently scanned and data captured, resulting in much lower error rates than manually keying. Two-dimensional bar codes have 100 times the capacity of bar codes commonly seen in department and grocery stores, and encode 1-2 kilobytes of data in a single machine-readable symbol. One 2D code has ample capacity to store all of

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the identification and tax component details of an individual's personal income tax return. In the few cases where there are larger data requirements, multiple codes have been generated and linked on one page. The following graphic is a depiction of a 2D barcode:



Research has shown that there is:

- A 98% successful read rate
- Data capture efficiencies of 15:1
- Reductions in error correction fallout from 40-50% for traditional paper to less than 10%
- Accuracy improvements in data integrity

This has resulted in a significant resource saving for the CRA.

4.3 Industry Classification

One of the key data elements required for analysis relating to risk assessment and targeted compliance strategies is industry classification. In order to achieve as much data integrity as possible, the CRA has entered into an agreement with Statistics Canada to provide North American Industry Classification codes. Statistics Canada, by nature of their mandate, are the experts in assessing the industry classification of businesses. As Canadian businesses register for a Goods & Services account with the CRA, they must provide a narrative description of their business activities. This information is data captured electronically and forwarded to Statistics Canada for coding. Specialized software was developed to ensure that there is adequate precision on the narratives that are forwarded. Once the accounts are coded, the information is returned to the CRA, where it is populated across the relevant databases.

5. USING TECHNOLOGY TO SUPPORT TAX CONTROL FUNCTIONS

Information technology has played a significant role at the CRA in tax administration control, in particular as it relates to the profiling and assessment of client behavior, and the associated tax compliance risks. Large volumes of data are systematically linked and evaluated for risk to ensure that our compliance and enforcement actions are directed in the areas that they need to be. This process reduces some of the discretion that could otherwise diminish the positive impact of compliance actions and compliance strategies.

The following initiatives are among the key control processes at the Canada Revenue Agency. They allow for a more comprehensive and integrated view of a taxpayer's compliance characteristics in support of decision-making. They touch on technology from a methods point of view, e.g. data mining, as well as an information technology applications point of view. They include information on our research methodologies, the development of research infrastructure, the deployment and delivery of compliance and risk profiles in an operational environment, and the decision support infrastructure for doing so.

5.1 Research Infrastructure

National-level risk identification and assessment processes are incorporated into several tax compliance areas at the CRA. They provide computerized case-level analysis of tax revenue risks, and support focussing our compliance efforts in areas where the risk is highest. These include processes:

- At the business registration stage;
- At the stage where taxpayers who are inappropriately outside the tax system are identified;
- At the tax return processing stage;
- At the post-processing or audit stage; and
- At the tax collection stage.

In order to implement these types of systems, it is necessary first to have a research environment in which to develop the rules and algorithms by which the compliance behaviour of taxpayers and

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their associated entities can be identified and assessed. The CRA has recently created a Compliance Laboratory to provide such an environment.

Essentially the Compliance Laboratory is a local network designed specifically for the use of a centralized team of researchers in order to identify and assess tax compliance risks. It has been designed as a place to:

- Bring together all the necessary data to assess risk e.g. financial statement information, industry classifications, third party information, benchmark information.
- Make linkages across the data. This means linking across all associated entities. Ultimately it will lead to a key individual taxpayer or set of taxpayers who may have business structures in place. The linkages will include corporations, shareholders, controlled companies, trusts, GST accounts, partnerships, joint ventures, and spouses. Most often, there is not an elaborate set of linkages. In cases where aggressive tax planning is involved, however, the number and types of related entities can be large.
- Have state of the art tools available for researchers.
- Have the ability to test out new research software, without impacting on the national distributed network.
- Bring in new sources of data quickly, and perform soft matching i.e. matching not based on unique common identifiers.
- Be privacy sensitive. Since the purpose is research, and not operational, there are minimized security and privacy risks by eliminating (for example) names and addresses.

The Compliance Laboratory provides 'sandboxes', or areas where researchers may test out their compliance hypotheses. If their hypotheses are validated as correct, there is an automated process for incorporating their findings/algorithms/criteria into a clean production environment from which it will be deployed in an operational environment. The researchers have access to a wide variety of linked data. This includes, among others:

- Tax return information;
- Financial statement information from businesses, including line items from income and expense statements, balance sheets, and reconciliation statements;

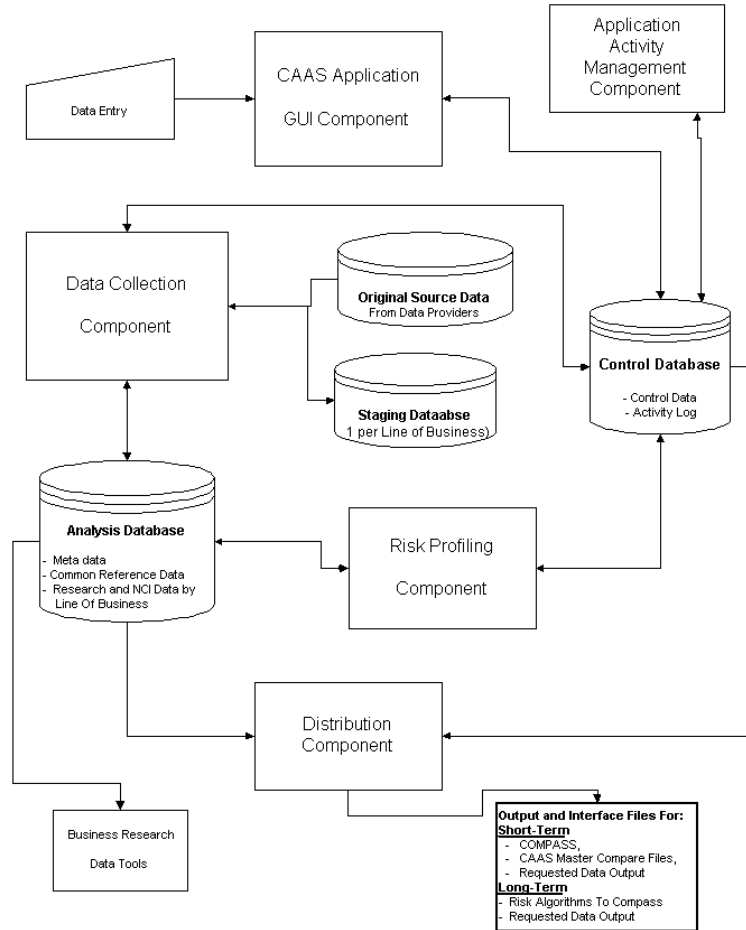
- Industry classification coding;
- Links to certain provincial (state)-level data files such as retail sales tax and property assessment; and
- Internally developed databases useful for assessing risk, such as net and gross profit norms for industry sectors and economic regions of Canada, other financial ratio norms, and family income norms for neighbourhoods defined by the Canadian postal system.

The Lab was designed to:

- Improve identification & prioritization of non-compliance risk
- Reduce analysis cycle time
- Be adaptable to a changing marketplace
- Address compliance risk complexity e.g. aggressive tax planning
- Be cost efficient.

The hardware and software costs associated with this local area network were not excessive (\$100K - \$200K). Nine IT staff are responsible for managing the Lab, including the addition of new sources of data and some soft matching. With these costs, even marginal percentage improvements in the targeting compliance actions provide a substantial return on investment (ROI). For example, in our 2003-2004 Annual Report to Parliament, we noted that actions to address non-compliance identified \$10.2 billion in fiscal impact. Just one component, "audits of small and medium businesses," had a fiscal impact of \$1.637B. Even a 1% improvement in targeting compliance actions in that component provides an annual return on investment of \$16.4M.

Graphic: Compliance Laboratory Context



5.2 Risk Analysis Methodologies

The CRA employs a wide variety of methodologies to understand the compliance risk profile of its clientele. These include basic technologies to advanced ones. Some examples include:

5.2.1 Third Party Data Matching

National processes and systems are in place to identify possible non-filers and non-registrants. These systems typically involve matching taxpayer master files to third party slips (e.g., interest income slips

obtained from banks, subcontractor payments slips obtained from construction contractors and government departments, etc.). The most important element in this process is cross-matching key pieces of data that can be used to identify high-risk Canadian taxpayers that do not appear in our taxpayer master files. Third party matching is basic but provides for a high return of the investment both when identifying non-filers and when identifying underreporting of income. The ROI is high because it is easily automated and largely based on facts that do not require employee interpretation or labour-intensive investigation.

5.2.2 Expert or Knowledge-Based Systems

The knowledge of experienced auditors is used to develop the criteria that when run against the database will identify potential non-compliance and estimate the possible revenue risks. For example, computerized criteria are used at the registration stage, the processing or tax return assessment stage, and in the post-processing or audit environment.

As an example of risk management in the processing environment, sets of criteria are used to automatically send a tax return to an officer for closer scrutiny when there is a material refund to be paid or when other high-risk conditions exist. The return is not cleared for further processing until the officer has resolved the risk associated with the file. This may involve further taxpayer contact to obtain supporting documentation for their claim. The same approach is evident in the processing of Goods and Services (VAT) returns where credit refunds are being requested. Computerized processes use risk-indicative criteria to reject suspect claims to officers for closer scrutiny, prior to making any payments.

In the case of the audit environment, auditors identify the issues of non-compliance that they most frequently encounter in their day-to-day audit activities. Based on their expertise and knowledge, they then provide the criteria by which the computerized national systems can identify these types of non-compliance. To date, more than 230 different sets of criteria have been developed to identify non-compliance. Examples include:

An area of concern in the rental income sector is the failure to use fair market pricing when renting residential property, resulting in improper loss claims. These situations are identified in a number of ways, including

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the use of property tax and interest expense data to estimate the true market value of the property and its associated rental value.

Unreported income is a key issue facing tax compliance with the underground economy. A number of criteria are used to identify potential abuses, including source and application of funds testing, and comparing taxpayers' reported family incomes to that of families living in the same neighbourhood.

The characteristics of corporate income tax filers are statistically compared to characteristics of corporations where, on the basis of past audit results, there is known non-compliance. A determination of the likelihood of a revenue risk is then established.

5.2.3 Data Mining

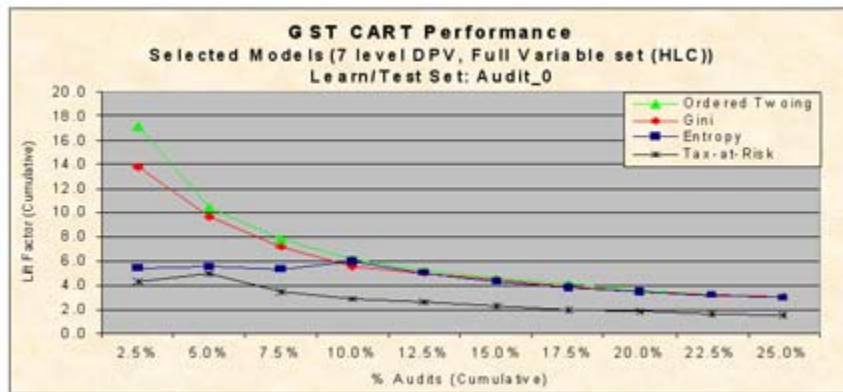
The knowledge of experienced auditors is supplemented by the power of sophisticated computer software to improve the effectiveness of the systems. Data mining is the process of exploration and analysis, by automatic means, of large quantities of data in order to discover meaningful patterns and rules¹. Typical techniques employed include such processes as neural networks and regression trees. Basically, for a given set of data, the data mining software is asked to distinguish the characteristics of taxpayers that have been non-compliant (usually on the basis of past audit results) from those that are compliant. The software can analyse thousands of characteristics simultaneously, and find patterns in the data that can be used to provide new criteria for identifying non-compliance.

The CRA recently tested the use of classification tree analysis in identifying tax compliance risks in Goods and Services (VAT) accounts. The analysis used both independent variables from the expert-based systems, as well as individual data fields previously not subject to analysis to identify tax risk. The model created was tested over a two-year period against three independent sets of data. The results were significant. They showed a three to five-fold improvement in the identification of high-risk files over the strictly expert-based approach. The algorithm is scheduled for deployment in 2006. The following graphic demonstrates the levels of improvement using varying models over the more traditional approach

¹ Berry and Linoff, "Mastering Data Mining", 2000

(which has been noted as 'Tax at Risk'). The vertical axis shows the lift factor (how many times more productive than the average or random results). The horizontal line shows the percentage of tax returns subject to audit.

Graphic: Improvement in Risk Identification Using Classification Trees



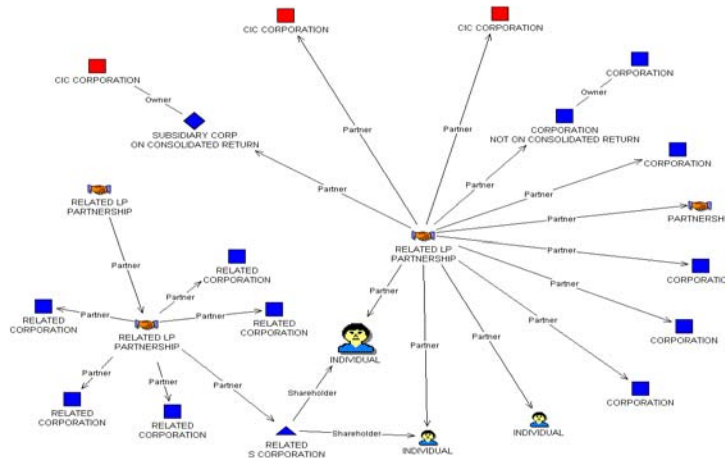
5.2.4 Graphic Linkage Analysis

The CRA recently identified aggressive tax planning and Goods and Services fraud as key compliance priorities. Identifying risk associated with both of these issues is often more about understanding the underlying business structure of associated entities. Graphic linkage analysis software is necessary to support risk assessment in this area, and has recently been introduced for this purpose.

With aggressive tax planning, for example, the risks associated with a key individual may not be evident from examination of that individual's tax return. The individual may have many associated entities that can be tiered, and ultimately have input income sources flowing into the individual's reported incomes. A careful examination of the compliance risks, several layers below the individual, may be necessary to identify the real risk.

The following graphic depicts a hypothetical example where the visualization of the business structure can be instrumental in identifying the associated tax compliance risk.

Graphic: Hypothetical Business Structure using Graphic Link Analysis



5.3 Cross-Program Compliance Profile

In our CRA Annual Report we have noted the importance of understanding compliance behaviour and allocating our resources according to risk. As well, our Corporate Business Plan has noted the need to develop tailored compliance solutions, based on an integrated view of our clients, and on having a working relationship with clients that is influenced by their compliance record. A cross-program client compliance profile is being developed to do just that: increase our understanding of compliance behaviour and allow for more focused compliance strategies, better targeting and improved allocation of our limited resources.

In the past, results of compliance actions taken (such as audits, investigations, collection, demands to file, etc.) were largely isolated to the functional areas responsible for those actions. The same was true of the results of our risk assessment systems. Thus, only a partial view of a client’s compliance behaviour was available to program areas.

The cross-program compliance profile has been designed to integrate our view of any client’s compliance history, and will ultimately enable us to respond to behavioural characteristics through more tailored compliance strategies. The profile will provide for the following features:

1. A history of compliance/enforcement actions across all programs. This touches on all aspects of tax compliance, whether registration, filing, reporting, or remitting.

2. A history of risk assessment results across all programs; and
3. Links to associated accounts. For example, an individual taxpayer is a major shareholder of company x, a Director in charity y, company x has GST accounts a, b, c and payroll accounts d and e. Thus it will be possible to know the collective compliance history of a related group of taxpayers.

The business advantages of such a profile are obvious and include:

1. Closer scrutiny of high-risk clients;
2. Expedited (or special) services for low-risk clients;
3. The development of more focused compliance strategies, and more effective deployment of compliance actions;
4. The provision of better horizontal (operational) efficiencies in our compliance programs; and
5. An increased set of analytical research possibilities, including the evaluation of down stream impacts of compliance actions and strategies.

Three of the CRA's compliance priorities are the underground economy, aggressive tax planning, and GST (VAT) fraud. The cross-program profile has application to each of these priorities.

To support our strategies with the underground economy, the profile will enable us to identify taxpayers who are habitual non-compliers. They will have a history on failure to register, non-filing and underreporting when filing. It will be possible to target a specific compliance program to this distinct group, and to continue to target them until their compliance behaviour changes.

To support our strategies with aggressive tax planning, the profile will be used to examine the compliance behaviour on a related group basis. This is one of the common characteristics of aggressive tax planning. Thus it will be easier to identify where non-compliance is occurring and relate it back to the controlling individuals.

To support our strategies with GST fraud, the profile will be especially useful at the registration stage, since fraud prevention is much more effective than fraud detection. For example, new registrants having a poor compliance record (including previous convictions for tax evasion or fraud) will be flagged immediately upon application for close scrutiny.

5.4 Compliance Measurement, Profiling & Assessment System



The results of the national risk assessment systems are made available to program managers as well as local tax service offices across the country through the Compliance Measurement, Profiling, and Assessment System (COMPASS). COMPASS is a business intelligence/decision support software tool. At the heart of the system is integrated information on the filing characteristics and potential compliance risks for each Canadian taxpayer. This information comes from the risk identification and estimation processes, as determined by the national risk assessment system. Using COMPASS, program managers can quickly analyze risks by industry sector, geographic area, as well as other statistical and demographic breakdowns. This can help them establish risk-based program plans. Audit workload developers across the country use COMPASS to:

- Gain quick point and click access to high risk workload in a Windows-like environment;
- View comprehensive taxpayer compliance profiles to make audit workload decisions;
- Test compliance theories by using individually established criteria to detect new areas of non-compliance and fraud; and
- Access compliance research analyses and reports to support the decisions they take in addressing non-compliance.

By providing easy access to high-risk files, COMPASS reduces the need of audit workload selectors to examine large numbers of low-risk taxpayer files and focussing their attention on higher-risk files.

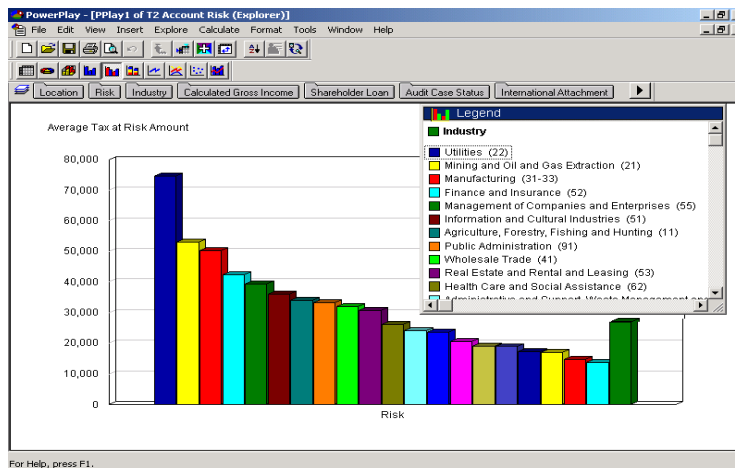
The national systems provide an identification of the possible areas of non-compliance and the risk estimates for all taxpayers. Because of this, system results from individual cases can be categorized and aggregated. The information provided in the aggregate analysis can be used to show how non-compliance is distributed across industry sectors, geographic areas of Canada, or other demographic or statistical parameters. This allows us to more broadly focus our compliance efforts.

For example, seventeen different areas of risk were identified (using criteria established by experienced auditors) for the rental income sector. By running the criteria against all taxpayers in the sector, it is possible to determine the frequency of occurrence of the various compliance risks. The following chart illustrates the distribution of the top five risks in the sector, both in terms of their frequency and in terms of the dollars at risk. This type of analysis allowed us to focus our attention specifically to the two major risks identified, that is the failure to use fair market rental values and the inappropriate expensing of capital items.

Rental Sector - Analysis of Issues		
<u>Issue</u>	<u>Frequency</u>	<u>Tax at Risk</u>
Fair Market Value Not Used	56,799	\$150,317,464
Capital vs Current Expense	59,114	\$ 48,925,547
Personal Portion Low	15,590	\$ 14,547,613
Other Expenses	17,727	\$ 12,348,795
CCA Creates Loss	3,894	\$ 5,170,858

Risk is not normally distributed evenly across the population. Thus it becomes important to direct compliance actions to the areas where the risks are highest. The following graphic shows how COMPASS can be used to support targeting at an industry sector level. The chart compares the average (estimated) tax compliance risks across sectors and is a hypothetical example only.

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Staff working with COMPASS require user profiles. These profiles provide either greater or lesser access to data and application functionality. 'Power' users are distinguished from standard users because they have a higher degree of access. An additional control on the proper use of the system has also been implemented. Whenever a user views a taxpayer's compliance profiles, that access is tracked by the system. This provides an audit trail that can be used to check that confidential taxpayer data has been only accessed for a legitimate business purpose.

6. INFORMATION TECHNOLOGY IN THE FUTURE AT THE CRA

The CRA is moving to an IT environment, where there will be single portal entries to a collection of systems, that will encompass all aspects of our analytical as well as operational work. It will include 'intelligent' workload allocation tools. Two major initiatives are underway. The Business Integration Systems Support Infrastructure (BISSI) will provide the operational environment for compliance (audit) programs, while the Integrated Revenue Collections (IRC) will provide the operational environment for revenue collections. Both of these initiatives are being developed in a horizontally managed fashion, and both of the projects will depend on development of our Agency Data Warehouse (ADW) and the associated Business Intelligence / Decision Support (BIDS) environment.

The ADW project is an Agency-wide initiative to facilitate strategic and tactical reporting, and represents the evolution of the Agency's

operational systems towards business intelligence. This horizontal initiative is in line with CRA's strategic corporate priorities and will directly impact the following areas: risk scoring, data mining, new analytical tools for research, cross program profile, business transformation for the Revenue Collections and Compliance Programs Branches.

BIDS is currently working with the programs mentioned above to bring data into the ADW in order to:

- Realize horizontal efficiencies by eliminating duplication of effort
- Develop more focused strategies to react more effectively to events
- Identify high-risk clients and allocate resources to targeted areas
- Improve analytical research capabilities

The BIDS program is a horizontal initiative that will help the CRA in its requirements to provide integrated information to our internal and external partners in a timely fashion. It will also improve the quality and consistency of information through our stewardship program and metadata process. In the context of service to Canadians, the BIDS initiative will enable the program areas to focus on specific segments of the population and direct their activities accordingly. For example, taxpayers often generate their tax returns with the aid of software programs, but they print the return and file on paper, rather than electronically. Using the ADW, the program area can identify the clients in specific geographic areas who have paper filed a computer generated return. The program area can then send the taxpayer an invitation to file that return electronically in the future.

This produces two positive results:

1. It reduces the resources required to process the tax return
2. It is a personalized service to the client.

6.1 BISSI

The BISSI project is a major business transformation initiative that will move the CRA forward with the development of the next generation of systems and tools. They include:

- Management Information Systems,
- Case/Workload Management,

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- Risk Assessment/Workload Selection, and
- Operational Program delivery.

This new environment is envisioned as a:

- Secure, web delivered and integrated IT environment accessible through one point of entry,
- Capacity for seamless sharing of information, to support decisions of staff and internal CRA clients,
- Dynamic workplace providing the ability to share key information relating to work in progress, and follow the progress of cases, portfolios and files.

Provide the capacity to:

- Work within a common environment across the Agency;
- Manage workload, inventories, and workflow;
- Operate and collaborate securely from anywhere at anytime;
- Search, analyze and report on information (including narrative information);
- Access all relevant client information (including risk and compliance issues) from one source;
- Capture and transmit information between various sources and users; and
- Store data in a central repository for ease of use.

The Case systems will contain all client/case activity throughout the CRA lifecycle. It will store and manage inventories as well as track and monitor workload by case or employee/team. It will provides access to working papers, various operational tools and information and will be able to automatically extract and update information from all CRA systems to start and complete a case. Finally, it will be able to be changed by specialists to support new business/workflow rules to meet program needs.

CRA employees working outside the office will be able to use their notebook PC without the need for a land-line internet connection. There will be a secure communication channel to exchange information and access client data. Users will have their work saved as they go (always on-line) and the standards will dictate a quick system access/response time.

There will also be eCollaboration tools to provide business with:

- The opportunity to instantly collaborate and tap into our greatest asset – the intellectual capital of our knowledge workers.
- The ‘virtual office’ capability to deliver our programs in new, innovative, effective and efficient ways.

An easy to use, safe, secure, controlled and auditable environment to facilitate program delivery through functionalities such as:

- a) File Transfer
- b) Document & Application Sharing
- c) Desktop Sharing
- d) Whiteboard (aka Net Meeting)
- e) Voice (aka VOIP).

6.2 Integrated Revenue Collections (IRC)

The Integrated Revenue Collections Project (IRC) is an initiative to modernize and transform Revenue Collections Branch (RCB) technological systems and business processes in order to enhance the effectiveness and efficiency of RCB program delivery. The mandate of the IRC initiative is to support RCB’s business transformation agenda by providing:

- Comprehensive risk identification and quantification
- Integrated, client-level view of compliance issues and events
- ‘Intelligent’ workload allocation tools and processes
- Improved case / task management tools and practices
- Effective performance measurement and reporting

IRC’s vision is to enhance the Agency’s position as a world leader in tax compliance, debt management and services through innovative and effective technological infrastructure and business expertise.

The IRC mandate has been further elaborated as three core deliverables, which form the basis for a number of related and highly inter-dependent projects undertaken as part of this initiative:

Core Deliverable 1: Greatly improved capacity to identify and quantify the risk of a taxpayer not complying with filing or remitting requirements

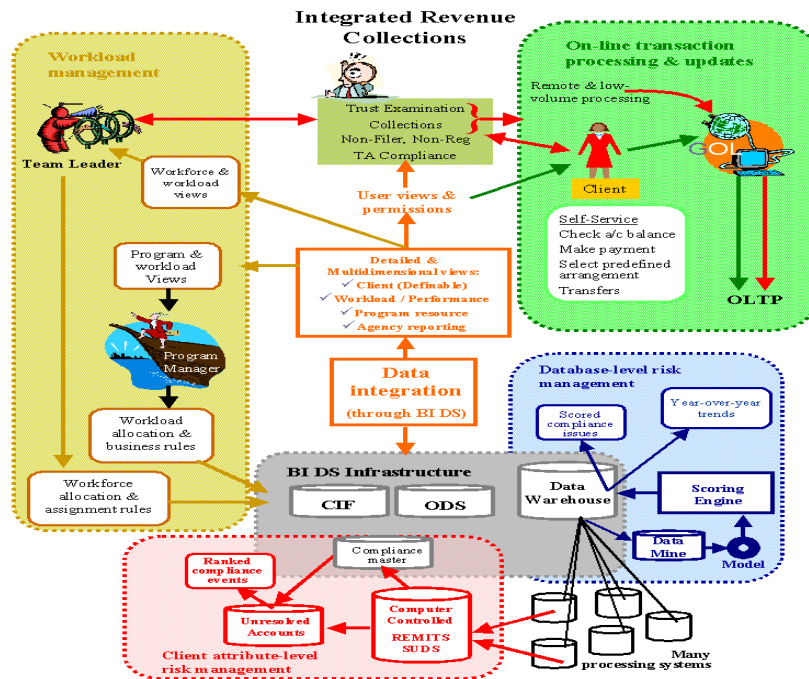
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or of a balance owing not being collected; facilitate the development and application of strategies designed to correct non-compliance; and measure and report on all aspects of performance.

Core Deliverable 2: Enhanced workload distribution processes that promote more timely action on compliance issues by: presenting workload to the field in the order of relative priority; offering the highest ranked workload to the next available resource regardless of geographic location (where face-to-face contact is not required); and providing a clear, validated strategy to support the effective resolution of outstanding issues.

Core Deliverable 3: Modern case management systems that help ensure that early, effective definitive action is taken to resolve all outstanding compliance issues by: providing the field officer with a concise 360° view of relevant issues and information; using business rules and prompts to guide field staff through the execution of predefined compliance strategies; and facilitating an integrated, team approach to managing and resolving complex cases.

The following is a graphic depiction of the IRC context.



7. CONCLUSION

The CRA has set out to achieve tax compliance by following a tailored approach based on the compliance attitudes and behaviours of Canadian taxpayers. Our compliance strategies include the use of facilitated compliance, assisted compliance and responsible enforcement. In all cases, the use of information technology as well as other technologies is vital to achieving success. In the case of facilitated compliance, many tailored taxpayer services have been developed to make it more and more easy for taxpayers to comply. The CRA also has recognized the need for easy access to high quality data in order to support their decision-making and has initiative underway to ensure high levels of data integrity. We have devoted time and effort to developing an effective research environment with which to analyse tax compliance risks. Many different risk analysis methodologies are being utilized. The results of research are being deployed in an operational environment that allows for strategic as well as tactical analysis. We have begun to integrate the information on our compliance actions to enable us to have a better understanding of the compliance behaviour of our clients.

We are not finished with the IT environment that will provide comprehensive support for our tax administration. The vision has been cast and initiatives are underway to more fully integrate our systems. This integration will provide the infrastructure necessary to allow us to further leverage our investments in achieving tax compliance.

CLOSING SESSION

GENERAL REPORT

GENERAL REPORT

Mario Aranguren Rincón
Colombian Consul in Curaçao
Former Director of the DIAN of Colombia

Firstly, I would like to especially welcome the CIAT and all the members of the different delegations that have participated in this conference. I hope that you have enjoyed your stay in Cartagena de Indias and that you continue to enjoy it. I wish that now you have visited Colombia, you may take back a better impression with you.



Mr. Mario Aranguren Rincón

I have been honored with the task of drafting the General Report of this Conference, and the truth be told, it is difficult to summarize in very few words, all the presentations and comments made in the course thereof. I apologize in advance for omitting any important aspect of the conference, but I promise to review it prior to its release to repair any omission.

The historic city of Cartagena de Indias has served as the framework to address the main theme of the conference: “**Viable Tax Administration, Viable State**”, a theme that among other things has enabled us to reflect upon the role of the tax administrations in our countries’ social and economic development.

The first topic of this conference has enlightened us on the experiences and proposals that are being undertaken by some of our tax administrations, as regards the awareness as to the relevance of the tax administration and the management of the environment.

GENERAL REPORT

The National Tax and Customs Directorate of Colombia (DIAN, as per the Spanish acronym), organized its presentation according to two areas, the first one addressed the signals of viability of a State, by emphasizing competitiveness as an element arising from the effectiveness of the policies thereof, the effectiveness of the private sector in terms of its productivity, and even their own values and attitudes, and lastly, the second area, the quality of basic infrastructure and aspects such as education, health, research and environment.

As key competitiveness factors, Colombia pointed out the need to rely on a stable and predictable legislative environment, the improvement of savings and investment conditions and the quality of the public administration, among other aspects. Along such lines, the viability of the tax administration arises as the essential element to guarantee a State that is able to undertake the priority initiatives in order to reduce social inequality, improve the redistribution of income and compliance with duties and obligations.

Just as the DIAN Director General presented, a diagnosis of the Colombian tax and customs administration was conducted in the year 2002, the results of which are certainly not very different from those gathered in other tax administrations of the area. In general terms, the DIAN of Colombia presented high levels of tax evasion and contraband, a weak voluntary compliance culture, a serious deterioration in customs competitiveness, a complex and inconsistent legal system, complete lack of the sense of service, structural deficiencies as regards quality, reliability and timeliness of information, lack of a sense of strategic partnership –customs and taxes- and a poor level of articulation among the areas, among other issues.

Based on the detailed diagnosis, Colombia initiated an ambitious change process, starting off with the simple redefinition of the tax administration mission: “Revenue, Service and Control”. We decided to build a new management model (MUISCA, as per the Spanish acronym), as the result of the interaction of the organization, human resources, processes and technology, and additionally, as guarantee and protection of the furtherance of the new model, we agreed to efficiently administrate the situation at the time. The new model has already rendered successful outcomes; the number of taxpayers registered with the DIAN grew from 500 thousand to more than 1.8 million. The taxpayers registered in the income tax have tripled, and the number of VAT-payers and withholding agents has doubled.

Customs' turnaround time has significantly dropped. In effect, the average foreign trade transaction time dropped from 72 hours to 7 hours on average, and many successful transactions, even to minutes.

Next, Andréa Lemgruber from Brazil presented a clear overview of her government's policies and the positioning of the tax administration. Her presentation referred to the way in which the tax policy is greatly tied to a country's social and economic development level, and that, overall, the tax administration is impacted by such factors, which calls for the permanent observation of the environment where it performs, as well as the economic conditions thereof.

Based on an environment marked by an unstable economic growth, high dependency on short-term financial capital, high internal and external indebtedness, and the exhaustion of the financing model based on the monetary base and indebtedness, Brazil succeeded in increasing its overall tax burden by an amount equivalent to 10 points of the Gross Domestic Product (GDP). The Brazilian tax burden grew from 26% of the GDP in 1993 to 36% in 2004, which places Brazil among the 20 countries with the greatest tax pressure in the world.

The presentation also explained the changes undergone by the Brazilian tax administration, in terms of achievements in their positioning and the support received. Since 1968, the Receita Federal has taken over the customs functions. Moved by the imperative need of increasing revenue collection, in 1995, the tax administration was restructured with a great investment in technology, the elimination of the political influence on the organization, service to taxpayers and other users as the agency's fundamental axis, integration with other government entities with the respective exchange of information, and an active participation of the administration in tax policy matters. The latter element has ensured the changes required to enhance the efficiency of the Brazilian tax administration, which serves as the basis for the relevant increase in revenue collection.

To summarize, the Receita Federal of Brazil is undergoing a continuous and gradual evolution process, influenced by the development model and the economic policy restrictions, while receiving support according to its contribution for the long-term process of growth.

The Director of the Internal Revenue Service of Ecuador also referred to this same signal of government policy, positioning and support received by the tax administration, by pointing out the basic elements

GENERAL REPORT

of the tax policy, the environment, the culture, legislation and administration. Such factors have defined the tax administration in Ecuador. Political and social instability, poor revenue collection, and the lack of tax awareness, together with high tax evasion and corruption rates and the effect of measures like the dollarization of the economy, have called for the reconsideration of the country's tax policy, and consequently, the adaptation of its tax administration. Currently, Ecuador enjoys an autonomous tax administration, which relies on an integrated information system and a clear vision of the tax administration and control business, which is geared at fostering voluntary compliance with tax obligations, according to the principles of reliability, permanent dialog, transparency of its actions and accountability towards its citizens.

On Monday afternoon, the Conference reflected on the forms and mechanisms to measure, prevent and assess taxpayer behavior. Chile referred to the tax administration based on three fundamental pillars: facilitate tax compliance; strengthen tax audits, and undertake the tax administration with a view to the country's economic development. In the global vision for their functions, they rely on a Strategic Plan that enables to define the management model that clearly distinguishes between the business functions and the supporting functions.

Likewise, the Internal Revenue Service from Chile is supported by a fiscal intelligence process developed in different areas, each one tied to its own competency and activities specific to their role, and based on an auditing plan that involves skills and detection of tax evasion practices according to the type of business and the size of taxpayers, seeking to simplify and improve processes with a view to improving revenue collection.

As to the measurement and control mechanisms, the Chilean presentation highlighted the management indicators as fundamental elements that generate improvements in the efficacy and efficiency in the auditing process, based on the fact that they rely on timely and quality information. Finally, the Internal Revenue Service of Chile has succeeded in executing public agreements, such as the performance agreement and the anti-tax evasion plan, which has allowed the agency to gear the organization's efforts in line with the guidelines defined by the National Government.

The interesting presentation by Mr. Vincent Mazauric from the General Tax Directorate of France referred to the adjustment of tax control to taxpayers' behavior. The French Tax Administration has defined a

system that requires filing taxes according to citizens' tax awareness regarding voluntary compliance with tax statements and payment, ensuring service to the users and offering legal certainty and prevention mechanisms.

As to taxpayers' tax adjustments, the tax administration was analyzed according to a relevant aspect such as the segmentation and loss of information and efficacy, which has led it to consider a broad modernization process of the tasks that are aimed at a unified tax administration, which includes functions such as registration, control and coverage.

Nonetheless, the tax administration shall implement a user-focused information processing system, risk analysis tools to detect anomalies; cooperation among the service and the states; economic oversight and an information gathering procedure.

On Tuesday, the presentations addressed the topic of the preparation of the organization and the capacity to respond to change. Horacio Castagnola from the Argentine Federal Administration of Public Revenues (AFIP, as per the Spanish acronym), set forth the different elements that explain the reason to be concerned about change; the different forms of change, whether motivated by internal aspects and circumstances or by a radical crisis, or by continuous improvement, among others. Likewise, he pointed out the role of management in a transformation and change process, in the analytical decision making role, as well as the executive role of spearheading the process. The different stakeholders of change were identified, from the leaders and doers to the skeptical and loyal, with a clear role in line with the management's approach and response.

The ultimate tax administration goal was set forth as the generation of the mechanisms required to induce ongoing improvement in society's tax behavior, according to the following fundamental pillars to face change: the appropriate strategy that includes context, processes and resources; its controlled and effective execution; intelligent alliances and information technology.

The strategy for change is centered on the notion of complete cycle, transparency towards taxpayers and risk assessment as the key factor for control and services activities. The essential converging tax administration processes may be revenue collection, auditing and taxpayer service, but according to a new integral vision of information.

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Specifically, the issue of the management model and strategy was undertaken by the Netherlands and Peru. Matthijs Alink, presented the experience of the tax administration of the Netherlands, which set forth the need for ongoing changes in the tax administration management model and strategies, which although being appropriately defined for specific times and circumstances, do not necessarily respond to current conditions. Thus, the Netherlands's tax administration and customs structure was based on different types of taxes and the assessment, control and collection were separate functions. By working with this kind of structure, in the nineties, it became evident that it did not serve the purpose of combating the growing phenomenon of tax fraud. It was impossible to provide an appropriate service to taxpayers and other users.

The decision was then made to review the management method of a relatively centralized bureaucratic management system with a view to a more decentralized system, in which notions such as integral management, decentralization, contract management and planning and control played a key role. Initially, such change in approach, in terms of primary processes and management model, was undertaken based on the assumption that the organization's structure could remain unchanged.

In the early nineties, a relevant reorganization process was undertaken in the Netherlands, by which a classification according to target taxpayers' groups was introduced. The units integrated by a target group were responsible for all the taxes and processes for their specific target group of taxpayers: private taxpayers, small and mid-sized businesses, large corporations and customs.

The restructuring process not only involved the adjustment of the general structure, but also the restructuring of the business process to render optimal support to target taxpayers. This involved three elements: **logistics**, which are processes that pursue the expeditious processing of tax statements, objections, correspondence and applications; **data structuring**, by taxpayers or type of taxpayers and **the actual tax treatment process content**, which is tied to the change of taxpayer or customer treatment and not the document. The treatment model may vary according to the level of complexity. Knowledge about the industry or the business (companies), the professionals' group (private taxpayers) and the circulation of goods (customs), jointly with the tax expertise, provide the basis for this treatment. The overall idea is to address the issues as required on a timely basis and act from a preventive and not corrective approach.

In spite of the fact that the introduction of the taxpayers' target group or segment model has marked a trend for many other tax administrations, the Netherlands changed the organizations' structure once more. The approach towards the target group shall continue to be the starting point for that administration. The new tax and customs administration stands for a learning organization, that may overcome inflexible schedules and visions of certain objectives; an organization in which the staff and the administrators are flexible enough to accept different professional roles and relations; an evolving organization, without divisions and permanent structures, since change and adaptation shall prevail as the general rule; and, an organization that shall never be complete and shall permanently face new circumstances and situations.

The management model of the National Superintendence of Tax Administration of Peru (SUNAT, as per the Spanish acronym), is based on activity planning and control. This is materialized in the triennial strategic institutional plan that sets forth the objectives, goals, indicators and strategies that shall be followed in the framework of strategic multi-annual sectorial plans approved by the Ministry of Economy and Finance.

Based on the Strategic Plan, the Institutional Operating Plan (POI, as per the Spanish acronym) is developed. This plan defines the short-term activities (1 year); the control function is performed according to two stages: evaluation and monitoring. The strategy and the management model applied in the SUNAT have lead to successful experiences. The National Superintendent of Peru pointed out the progress in the electronic services, electronic tax statements, the system based on neural networks to avoid imports fraud, advance payment systems for the general sales tax, among others.

In general terms, Peru presented the form by which the environment, the relations and alliances with the stakeholders therein are established, on the basis of the appropriate technological development that has achieved satisfactory outcomes as to knowledge generation and management: control and service in the SUNAT. The Peruvian speaker stated that in spite of the changes introduced in the management model and the recent information and communication technologies' innovations, human resources remain the key in such processes.

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The topic of management, organization, structure and resources was presented by Bolivia and the CIAT. The National Revenue Service of Bolivia attached great importance to the organizational, structural and resources' transformation process, which has been underway since the year 2000. In such respect, significant progress has been made in the human resources' selection and qualification process, the service-oriented organization, which introduced significant improvements in the taxpayers' information and assistance services. Likewise, the new auditing approach is under implementation, which includes defining taxpayer selection methods based on fiscal intelligence criteria and the intensive use of IT systems among its control policies. Additionally, significant growth has been achieved in terms of the financial and infrastructure resources received by the Bolivian tax administration, based on the budget increase owing to the tax revenue improvement.

On the other hand, the CIAT experience presented the relation that exists between functions and processes, the structure and action policies as management elements for the tax administrations. The tax administration functions set forth as processes are tied to the actions to meet the institutional purpose thereof. The organization and structure constitute the vehicle by which the administration may meet its institutional purpose, by supplying a structure of functions and resources that leads to the appropriate processes' development. Likewise, the tax administration's development is closely tied to the development of the State, of the economy and the cultural behavior.

Today, the Conference was focused on the topic of information technology applied to tax processes. The DIAN of Colombia presented its strategy based on the Single Model for Automated Revenue, Service and Control (MUISCA, as per the Spanish acronym), according to two approaches: **The conceptual framework:** based on the common elements of an institutional mission that is standard for the tax administration. Revenue collection, service rendering and control actions were defined according to a strategic classification of processes into those that correspond to organization and methods; technical and IT; mission-specific and the supporting efforts that are common to any organization.

The value added for such strategic process classification is undoubtedly, the possibility of a genuine integral structure represented by the standardization and harmonization of all the documents, the uniformity of each and every piece of information, the interaction among all the levels and areas of the organization's structure and processes' consolidation. The knowledge available to human resources is evidence

of the fact that the DIAN is made up by processes and by information and such decision is materialized in the advances of the new management model selected by Colombia.

The access to automated services offered by the MUISCA through a single portal, in which each individual gains access according to his or her role and organization does away with the trend of creating tools for a certain functional segment of the organization. In technological terms, it is a set of services, which the model provides to the internal and external tax administration user, with increasingly less participation of the IT staff, whose work shall be mostly focused on ongoing improvement activities.

I believe that among the most relevant conclusions, the following aspects may be noted: the more efficient use of the large amount of information regularly available within a tax administration; process automation as a mechanism to unify the performance of the administration and the reduction of the official's discretion, among other benefits; the integral operation of the organization and its automated services; the user-friendly feature; the fact that it constitutes a meeting point for all the agents in the functional administration context, stands for a model that makes the administration viable in effective terms.

It is my duty in the capacity of Rapporteur to highlight the strategy defined by the DIAN of undertaking the appropriate actions that should have been undertaken a long time ago, without losing track of the day to day performance, in order to make the initiative viable.

As regards Management, Mr. Javier Vega from the Tax Administration Service of Mexico (SAT, as per the Spanish acronym), addressed the grounds according to which the tax administrations shall manage information requirements, pointing out the relevance of a reasonable management thereof in order to maximize those from different business areas, since in many cases, the same information is required but with a different approach, which calls for the administration of the information "life cycles". In effect, large amounts of data are processed, which quickly become outdated or what is even worse, are not followed-up from a previous requirement and the data continue to accumulate without specific current or updated needs.

Likewise, he considers that the administrations may benefit from an adequate taxpayers' risk and behavior analysis, when taxpayer knowledge is based on actual events and arises from the standardized

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tools and analytical methods. Likewise, he analyzes in what way tax authorities may benefit by understanding taxpayer behavior, which is not only tied to noncompliance, but also to compliance with regular requirements.

This knowledge enables the tax organization to better serve the citizen by way of different means such as the customization of internet interfaces, better management of remote as well as local support of the taxpayer's needs, and the possibility of matching federal and local government requirements as regards taxpayer management, and finally, reduce the response time according to taxpayer expectation.

Therefore, business intelligence and risk management shall constitute the motor for service, relying on data provided by information technologies and also considering that any other service shall require special attention and be assessed by means of four essential elements: standardization; delivery time; cost management and customer management.

The topic of the services rendered from IT applied to tax processes was developed by Spain and Chile. The State Agency of Tax Administration of Spain attaches special relevance to information and communications technology, as one of the success factors in the achievement of their numerous goals, and specifically, as regards assistance activities, participating as direct and indirect facilitators.

The decision of using the Internet as a tax administration process tool in the Spanish case is based on three elements: the information system's reliability; the tax administration's duty to promote the use of new technologies in society; the possibility of offering a satisfactory solution for users by contributing to the value added against conventional solutions; and the need for prompt detection of the issues to be addressed, since a time shall come when taxpayers shall demand such a solution to meet their tax obligations with the administration and shall cease to accept the conventional means.

A key aspect is to use the new technologies to foster the administration's better relation, knowledge and identification with society. For example, the fact that the Spanish tax administration has deemed it necessary to offer society the possibility of participating in the development of the Tax Fraud Prevention Plan, by communicating not only the draft version thereof, but also by making available a suggestions' box.

Additionally, the Spanish Tax Administration offers taxpayers 17 different types of software to support them in the tax statement process. Such tools also enable the interaction with the tax administration's internet services and content. The taxpayer may access queries and answers' databases and even participate in Chat rooms with a remote official that may assist with any query or event.

Another type of assistance tool is the virtual office, by which an individual may access all the information necessary to request the assistance of the administration or fulfill an obligation. In fact, the State Agency of Tax Administration has forwarded taxpayers 2.8 million pieces of tax information and approximately 7.5 million draft individual income tax statements in the course of this year. Another example of technology-based user service is the foreign trade transactions, in which the Agency entered into alliances with other stakeholders in the process, such as ports, airports, and customs brokers, consigners, with a resulting 44 minutes for imports and exports' transactions processing, with a direct impact on customs' cost reduction.

Also regarding the topic of services, Juan Toro, Director of the Internal Revenue Service of Chile, referred to the development of the services mainly based on information technology, implemented for taxpayer assistance and focused on the related functionalities more than on the technologies employed. He mentioned how the intelligent and efficient use of information and communication technologies has been one of the strategy's pillars for success, to such an extent that the tax compliance e-government services are among the most advanced in the world. For this reason, Chile has been invited to participate in the taxpayer's services working group, which reports to the Forum on Tax Administration and the OECD Center for Tax Policy and Administration.

It should be highlighted that by promoting the digital inclusion of the economic stakeholders based on electronic tax compliance, not only are taxpayers enabled to benefit from the advantages arising from the use of the Internet and information and communication technologies in the tax sphere, but also, to discover the potential, savings and better efficiency and productivity in the furtherance of their business activities.

The information technology services provided by the Chilean Tax Administration seek to render high-quality services, thus facilitating tax compliance, minimizing the costs of fulfilling tax obligations, optimizing the administration's auditing capacity, benefiting from the information, fostering the use of technologies in taxpayer's business, with a view to

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generating an impact on other public and private entities in order to foster the use of information and communication technology.

The Online Internal Revenue Service has been materialized in the virtual office according to three basic concepts: the actual tax scenario, which includes the new legislation in effect and the follow-up of the Anti-Tax Evasion Plan; the virtual office for formalities; and taxpayer assistance, which is tied to the main tax processes.

The topic of control in information technology applied to tax processes was addressed by Brazil and Canada. The Brazilian experience has enabled to work according to the concept by which the optimization of the administration's outcomes is closely tied to the tax selection processes. Therefore, the optimization of the tax selection process is by all means instrumental in order to succeed in the combat against tax fraud. The Harpía project is based on the use of state-of-the art technology for tax selection purposes, involving, in addition to the Receita Federal, institutions such as the Aeronautical Technology Institute and the University of Campinas, whose purpose is to promote tax selection process integration and systematization, based on artificial intelligence techniques for risk analysis and the assessment of the results arising from the transaction.

The implementation of such model shall enable to develop new taxpayer analysis and behavior simulation instruments, considering the quality of the information captured and the application of solutions arising from those created for risk analysis purposes.

The project is basically aimed at the expansion of data capturing initiatives, knowledge dissemination systematization, risk assessment of taxpayers and transactions, as well as the integrated selection management.

On this same topic, Canada explained the use of information technology by the Canadian Revenue Agency to meet tax obligations. Risk management is based on three components: facilitating compliance with good tools and appropriate information; assisted compliance to ensure legislation is duly met; and the implementation of a responsible law-abidance program. As the basis to achieve the foregoing, the presentation underscores the measurement of taxpayers' attitude and actions to gather information in order to achieve the strategic focus and business behavior relation.

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The Canadian tax administration avails itself of technologies in the control functions by means of certain relevant initiatives that have enabled relevant achievements and improvements in the auditing processes. Likewise, the future course of information technologies in the Canadian Tax Administration's processes shall entail the creation of a business data center with full commercial intelligence capabilities and decision-making process assistance, in line with operating processes' integration programs with modules such as risk assessment vis-à-vis tax burden allocation for each case, workloads, management information, and remote access and cooperation tools.

In order to conclude, I would like to especially extend my gratitude to all the people of the National Tax and Customs Directorate of Colombia, for the organization of this Technical Conference and the hospitality enjoyed in this historic city.

Thank you very much.

**VOTE OF THANKS ON BEHALF OF PARTICIPANTS
TO THE HOST COUNTRY – COLOMBIA**

**MS. VINETTE KEENE
DIRECTOR GENERAL FOR TAX ADMINISTRATION
REVENUE SERVICE OF JAMAICA**

The Executive Secretary of CIAT, Mr. Jorge Cosulich, Country Representatives and Participants to CIAT Ladies and Gentlemen:

Mine is the pleasurable task of moving the VOTE OF THANKS on behalf of the participants of this Technical Conference to our capable host COLOMBIA.

At the time of being asked to do the Vote of Thanks, I mentioned it to a friend of mine, from the Caribbean Region of course, who suggested that “a vote of thanks should be like a MINI SKIRT, long enough to cover the essentials, but short enough to keep you wanting more”.

No doubt you could perhaps imagine that this “friend” is of the male specie, and since it is noticeable that the predominant gender of the participants in this technical conference is male, I have decided to try to follow the advice.

For most of us, the first encounter with representatives of our host country Colombia was the pleasant and efficient group at the Airport greeting us as we arrived from our various countries. Our waiting and processing time was cut to the barest minimum, and then it was to the carousel for our luggage, and soon we were on prearranged transportation to our hotel and conference venue.

CLOSING SESSION

The most critically important factor in hosting a successful conference by any standard is the choice of a good venue. Colombia's choice of the Hilton – Cartagena was a key factor in the tremendous success of this conference.

1. The courteous and efficient hotel staff made our settling in to our new home at least for the next five (5) days or so, very comfortable, and soon created a feeling of comfort and balance away from our respective homes.
2. The spacious surroundings of the Conference Room made it easy to remain focused throughout our sometimes long days, and the supporting locations, internet room, refreshment area, return flight reservation resources, etc., really created a synergy that lent fluency to the events of the conference.
3. Most countries known for their outstanding achievements, realize these distinctions from the energies and actions of their people, a nation's greatest and most valuable resource. COLOMBIA, your people are warm and hospitable.
 - Our Master of Ceremonies who piloted the proceedings so efficiently with such grace and beauty, we applaud you.
 - To the technical staff for sound and computer support, your mastery and control of the situation undoubtedly supported the substance of the conference.
 - To the remaining support staff that saw to the needs of the participants in answering our many questions especially the ones from our SPANGLISH/English speaking participants, thank you for your patience, clarity and gracious responses. Yesterdays event at the island, added that special dimension that created a relaxing atmosphere amid the serious business of tax discussions.
 - And to the children and adults who presented the cultural offerings, you did your country proud.
 - To the Director General of DIAN and the government and people of Colombia, we the participants of this technical Conference sincerely appreciate your splendid hospitality.

I would like to crave your indulgence to allow me to express to our outgoing Executive Secretary of CIAT, how honoured I feel to have been privileged to have participated in CIAT during the time of his

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leadership. To have known you SIR, is to have encountered the “TRUE MEASURE OF A MAN”. You have been a friend to all of us and we salute you. Your personal charm and professionalism have endeared you to all who have been fortunate to have worked with you.

EVERY SUCCESS, MUCH HAPPINESS AND GOOD HEALTH IN YOUR NEW ENDEAVOURS.

To our incoming Executive Secretary, Dr. Claudino Pita, may your leadership continue to take this organization from strength to strength.

Participants, ladies and gentlemen, please join me in an applause indicative of our collective appreciation of our host country Colombia, for a job well done.

We would therefore like to call upon all those who have so earnestly worked to make this event a great success to come forward as CIAT presents you with a token of appreciation for your tremendous contribution..... I thank you.

TECHNICAL PROGRAM

CIAT TECHNICAL CONFERENCE

Cartagena, Colombia
September 26-29, 2005

DAILY SCHEDULE OF ACTIVITIES

Monday, September 26

Main theme: "VIABLE TAX ADMINISTRATION, VIABLE STATE"

- 09:00-09:30 **Inaugural ceremony.**
- 09:30-10:05 Recess
- 10:05-10:20 **Topic 1 Awareness of tax administration importance and management of the environment.**
- Moderator:** Alberto Abad, CIAT Executive Council President.
- 10:20-10:55 **Speaker:** Oscar Franco, General Director, Direction of National Taxes and Customs, Colombia.
- 10:55-11:25 **Commentators:** Jesús Ruíz Huerta Carbonell, Director of the Institute of Fiscal Studies, Spain. Márcio Verdi, Director of Strategic Planning and Studies, CIAT.
- 11:25-12:00 Open discussion

Afternoon

- Topic 1.1 Government policy, positioning and support.**
- 13:30-13:40 **Moderator:** Luis Pedroche, General Director, State Agency of Tax Administration, Spain.
- 13:40-14:30 **Speakers:** Andréa Lemgruber Viol, General Coordinator of Tax Policy, Federal Revenue Secretariat, Brazil. Elsa Romo Leroux de Mena, General Director, Internal Revenue Service, Ecuador.
- 14:30-14:45 **Commentator:** José María Zubiría Maqueo, Head of the Service of Tax Administration - SAT, Mexico.
- 14:45-15:15 Open discussion

TECHNICAL PROGRAM

	Topic 1.2.	Control: measurement, prevention and assessment of behavior of those responsible for taxes.
15:55-16:10	Moderator:	Róger Arteaga Cano, General Director, Directorate of Revenues, Nicaragua.
16:10-17:00	Speakers:	Juan Toro Rivera, General Director of the Internal Revenue Service, Chile. Vincent Mazauric, Head of Application Department, General Directorate of Taxes of France.
17:00-17:15	Commentator:	Susan Bowen, Director General, Policy & Planning, CRA – Canada.
17:15-17:45	Open discussion	

Tuesday, September 27

Morning:

	Topic 2	Preparation of the organization and capacity for responding to change.
09:00-09:10	Moderator:	Rafael Fernando Vargas Salgueiro, Executive President a.i., Service of National Taxes, Bolivia.
09:10-09:45	Speaker:	Horacio Castagnola, General Director, General Directorate of Taxation, AFIP, Argentina.
09:45-10:15	Commentators:	Fernando Soares, Deputy Director General, General Directorate of Taxes, Portugal. Elvin Hedgpeth, Deputy Director of International Programs of the Internal Revenue Service, United States.
10:15-10:45	Open discussion	
10:45-11:05	Recess	
	Topic 2.1.	Management model and strategy.
11:05-11:15	Moderator:	Vladimir Regueiro, Director of Municipal Plaza Office, Cuba.
11:15-12:05	Speakers:	Matthijs Alink, Director of International Affairs of the Tax and Customs Administration, the Netherlands. Nahil Hirsh, Superintendent of National Superintendency of Tax Administration, Peru.

TECHNICAL PROGRAM

12:05-12:20 **Commentator:** Francisco Fonseca Montero, General Director of Taxation, Ministry of Finance, Costa Rica.

12:20-12:50 Open discussion

Afternoon

Topic 2.2 Management, organization, structure and resources

14:20-14:30 **Moderator:** Pablo Marroquín, Manager of Planning and Development, Service of Tax Administration of Guatemala.

14:30-15:20 **Speakers:** Mario Arduz, General Manager a.i. Bolivia / María Raquel Ayala, Research and Training Manager, CIAT.

15:20-15:35 **Commentator:** Edward Kieswetter, General Manager: Large Business Centre, South African Revenue Service.

15:35-16:05 Open discussion

Wednesday, September 28

FREE DAY

Thursday, September 29

Morning

Topic 3 Information technology applied to the tax processes

09:00-09:10 **Moderator:** Elvin Hedgpeth, Deputy Director of International Programs of the Internal Revenue Service, United States of America.

09:10-10:10 **Speakers:** Esperanza Sánchez Pérez, Blanca Deicy Zamora Restrepo and Abelardo Quintero Rendón, MUISCA Project, Colombia.

10:10-10:40 Open discussion

10:40-11:00 Recess

TECHNICAL PROGRAM

	Topic 3.1	Management
11:00-11:10	Moderator:	Andrea Neufeld, Deputy Ministry of Taxation, Paraguay.
11:10-12:10	Speakers:	Abelardo Quintero Rendón, Users Manager, MUISCA Project, Colombia Javier Vega Flores, General Administrator of Communications & Technologies, Service of Tax Administration of Mexico.
12:10-12:25	Commentator:	Elsa de Mena, General Director, Internal Revenue Service, Ecuador.
12:25-12:40		Open discussion
Afternoon		
	Topic 3.2	The Services
14:00-14:10	Moderator:	William Layne, Permanent Secretary of Finance, Barbados.
14:10-15:10	Speakers:	Marta Guelbenzu, Cabinet Director, General Directorate, State Agency of Tax Administration, Spain. Juan Toro, General Director of the Internal Revenue Service, Chile.
15:10-15:25	Commentator:	Antonio Loro, Italy.
15:25-15:40		Open discussion
15:40-15:55		Recess
	Topic 3.3	Control
15:55-16:05	Moderator:	Oscar Franco, General Director, Direction of National Taxes and Customs, Colombia.
16:05-17:05	Speakers:	Antonella Saraiva Lanna, General Coordination of Customs Administration – SRF, Brazil. Ron Thomson, Director, Risk Assessment Division, CRA – Canada.
17:05-17:20	Commentator:	Jaime Vásquez Caro, Colombia.
17:20-17:35		Open discussion
17:35-18:00	General Report:	Mario Aranguren Rincón, Consul of Colombia in Curacao, former DIAN General Director.

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53rd CIAT Technical Conference

Cartagena de Indias, Colombia
September 26 – 29, 2005

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All the material contained in this publication was prepared, set up and printed at the Publications Center of the CIAT Executive Secretariat, P.O. Box 0834-02129, Panama, Rep. of Panama. 60 copies were printed