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**“IMPROVEMENT OF THE EFFECTIVENESS OF THE TAX ADMINISTRATION  
THROUGH NEW ORGANIZATIONAL MODELS”**

**Subtopic 1.3**

**“THE MERGER OF THE ADMINISTRATION OF INTERNAL TAXES WITH OTHER  
PUBLIC FINANCE FUNCTIONS: JUSTIFICATION AND VIABILITY**

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## Topic 1.3

# THE MERGER OF THE ADMINISTRATION OF INTERNAL TAXES WITH OTHER PUBLIC FINANCE FUNCTIONS: JUSTIFICATION AND VIABILITY”

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Contents: 1. Introduction.- 2. Argentina’s experience in integration.- 2.1. Evolution of the Tax Administration.- 2.2. Single Agency Model.- 2.3. Some numbers.- 2.4. Main axes of action.- 2.5 Conclusions

### **1. Introduction**

This paper aims at presenting the experience of the Federal Administration of Public Revenues (AFIP for its acronym in Spanish) of Argentina in the integration of internal taxes with other public finance functions.

In this regard, it will describe the process implemented in Argentina as well as the mechanisms used to implement the integration of agencies and the main aspects considered on the path to unification.

Likewise, the paper sets forth progress made on the basis of the integral vision of the tax administration. Emphasis will be placed on those management tools crosswise used in AFIP, generating benefits that would be difficult to obtain if there were no synergy among the three operational agencies: the Directorate General of Customs (DGA for its acronym in Spanish), the Directorate General of Taxes (DGI for its acronym in Spanish),

and the Directorate General of Social Security Resources (DGRSS for its acronym in Spanish).

Finally, it also includes conclusions stemming from the implementation of the single agency model in Argentina, aiming this experience to be useful for those countries willing to analyze the possibility of introducing changes in their tax administrations.

## **2. ARGENTINA'S EXPERIENCE IN INTEGRATION**

### **2.1. Evolution of the Tax Administration**

The Customs, with a strong identity built on its long history, dates back to colonial times. The Real Aduana de Buenos Aires (Royal Customs of Buenos Aires) was formally created in 1778, although there were previous customs offices. In 1853, internal customs were unified with the one of the Port of Buenos Aires under federal jurisdiction, late in the process of constitution of the Argentine Republic.

With regard to the collection of "excise" taxes, different bodies were merged between 1891, when the Administración General de Impuestos Internos (General Administration of Excise Taxes) was created, absorbing in 1902 the Administración Nacional de Alcoholes (National Administration of Alcohol), and in 1947, when the Directorate General of Taxes started-up.

Later, in 1993, the DGI assumes the functions of collection and administration of social security resources, absorbing the body that had such powers. With the creation of AFIP, these functions remain within the DGI's scope, but then, in 2001, the Directorate General of Social Security Resources (DGRSS) is created, being responsible for the distribution of social security resources of more than 350 agencies. Cyclical reasons give rise to an institution of short existence, the *Instituto Nacional de los Recursos de la Seguridad Social* (National Institute of Social Security Resources -INARSS), but finally, in the middle of 2003, the administration of social security resources is granted again to the AFIP, under the responsibility of the Directorate General of Social Security Resources (DGRSS).

A first Executive Order established the merger of the Directorate General of Taxes (DGI) and the National Customs Administration (ANA for its acronym in Spanish), which, within the sphere of the Federal Administration of Public Revenues was renamed as Directorate General of Customs (DGA).

In order to provide an adequate time to draft the rules that would grant legal capacity to the new body, a second Executive Order established a period of transition until its

effective implementation, and determined that the AFIP would serve as self-governing body within the scope of the Ministry of Economy and Public Works and Services.

The model adopted defines a level for the Federal Administration of Public Revenues in which strategies, plans and programs are established, and common operations and services are performed, and a level that makes the tax, customs and social security management, which is made up of the Directorate General of Customs, the Directorate General of Taxes, and the Directorate General of Social Security Resources.

## **2.2. Single Agency Model**

### **2.2.1. Grounds**

Tax administrations are one of the most important, complex and dynamic interfaces in the State-society relationship. In view of their nature, they must make permanent efforts to adjust to new economic and social scenarios, as well as to the changing political-institutional conditions.

Additionally, they must be capable of promptly meeting citizens' demands, showing a transparent management of the resources they handle and responsibility in the exercise of its functions.

These requirements make it necessary to have enough information in order to analyze the context in which they operate, to adequately know about the administered individuals/businesses and their operations, to identify new operations and to assess strategies which allow them to fulfill their objectives.

To this effect and given the fact that many natural and legal persons must, at the same time, pay excise taxes, be users of customs services and contribute to social security, it is important to have an appropriate level of cooperation among the agencies in charge of administering these three aspects of the relationship with the tax authority.

In this regard, it is necessary for tax administrations to establish cooperation mechanisms with other bodies in charge of registration and control with which the administered individuals and businesses must also relate, that is, those that grant legal capacity, real estate cadastres, property registries, and vehicle, aircraft and vessel records.

In countries with federal organization, the competences of many of these agencies are decentralized, which forces them to double their efforts to agree by consensus on cooperative schemes due to the functional and operational features in each jurisdiction.

## **2.2.2. Strategic objectives**

The tax administration, under the Single Agency Model, proposed the following strategic objectives:

- To strengthen the primary control, prevent default and non-compliance;
- To reduce evasion, smuggling and unregistered employment;
- To contribute to the economy development and sustainability, encouraging the responsibility of citizens and organizations as actors of the resources collection process;
- To improve services to taxpayers and foreign trade operators so as to promote voluntary compliance of its obligations; and
- To promote organizational development, professional growth of officials and ensure efficient use of material and financial resources.

## **2.2.3. Characteristics**

### **2.2.3.1. Integration of the main functions**

Management related to excise taxes and the control of foreign trade remained in the hands of the Directorate General of Taxes and the Directorate General of Customs, respectively, each having retained specific functions and operational resources.

Throughout their existence, both agencies built appropriate mechanisms for the decentralization and delegation of operational capacities. This allowed to move forward along these lines by strengthening the managerial role assigned to the heads of each region, of customs and tax agencies, to which powers and an authority level was given so as to lead their units.

On the other hand, AFIP maintained horizontal processes common to the whole of the organization.

Under these guidelines, the departments that prepare plans and establish programs common to the management units –collection, tax examination and planning- now reports directly to the Federal Administration, together with the units in charge of IT, internal audit, planning, legal affairs and management of human, financial and material resources.

These offices play a two-fold role: on the one hand, they assist and give support to the Directorates General; and on the other hand, they are responsible for the formulation and coordination of policies, plans, rules and systems regarding organization processes, all of which are carried out jointly with the DGI, the DGA and the DGRSS, according to the knowledge and experience they have in their respective fields.

In this way, the intention is to adopt homogeneous criteria tending to streamline and simplify the rules and procedures governing the relationship between the tax authority and the administered individual/business.

#### **2.2.3.2. Operative rationalization**

The search for economies of scale in resource administration and in infrastructure and management costs– communication networks, mail systems, input stocks, etc.– was also considered to make the use of available means more efficient.

Progress was made regarding the integration of the support processes that are transversal to all AFIP areas. Among the most significant, it is worth mentioning those related to human resource and economic-financial management as well as to the management of administrative documentation.

### 2.2.3.3. Optimization of control actions

The available information of the Tax Administration is an essential pillar for risk analysis.

The integration of functions facilitated the process of adding and making compatible into the databases the information provided by the administered individuals/businesses to the DGI, the DGA and the DGRSS and integrating such information with the data provided by the information agents and other organizations.

Among other data, AFIP holds information on the following:

- Tax returns and payments
- Import and export customs clearances
- Social security declarations and payments
- Alternative addresses
- Data provided by withholding agents
- Real estate –provided by provincial cadastres and registries of real estate and transactions before notary publics.
- Vehicles and transactions of second-hand automobiles
- Aircraft
- Vessels
- Relevant purchases and consumptions
- Financial operations – opening and closing of accounts, bank credits, debit card transactions, money orders from and to foreign countries, purchase/sale of foreign currency
- Stock exchange deals – purchase and sale of public and private securities
- Transfer price declarations

The integration of functions brought together different experiences in the enforcement of existing rules regarding taxes, customs and social security, as well as the identification of opportunities for improvement.

In this regard, a series of legislative reforms were promoted known as “Plans Against Evasion”, which included proposals on tax matters, tax procedural proposals and initiatives mainly on customs and social security.

The main aspects addressed in the different “Plans Against Evasion” referred to:

- the extension of joint liability to certain subjects;
- the incorporation of new assumptions to the Tax Procedure Act;
- the granting to the Executive Branch the power to condition the calculation of deductions and tax credits;
- the incorporation of resistance to the tax examination as a figure of noncompliance;
- the prohibition of foreign trade transactions involving counterfeit goods;
- the facilitation of the disposal or sale of goods seized by Customs;
- the redefinition of the tax base in certain foreign trade transactions;
- the limit of time up to which the customs declaration can be rectified;
- optimization of coercive collection of customs debts;
- adjustment of the offense of minor smuggling and establishing higher penalties for smuggling punishable by the courts;

- the power of AFIP to set up guarantees by electronic means;
- the review of the domestic service workers' regime;
- the promotion of standards to combat the use of legal institutes to evade payment of social security contributions;
- the determination of the debt on a presumed basis when the employer does not register or declare its personnel;
- the implementation of a regime of sanctions applicable to withholding agents and collection of social security resources, similar to those related to taxes;
- the reduction of procedural terms for social security matters;
- the granting of authority to AFIP to carry out preventive seizures and the potential confiscation of goods;
- la consideración de la dirección electrónica como domicilio fiscal;
- the determination of an electronic address as a fiscal domicile;
- the creation of the concept of the "*inspector fedatario*" (a sort of undercover agent to detect non-compliances), and;
- the start-up at the national level of a unified registry for legal persons.

Today, the creation of a new "Anti-Evasion Plan" is in progress with initiatives related primarily to social security.

#### **2.2.4. Functional aspects**

As from the year 2001, AFIP operates as a self-governing entity within the Ministry of Economy and Production. Such self-sufficiency is essentially based on two pillars:

- Autonomy in the management of its resources made up of a percentage of the total collection of taxes and customs duties.
- Stability in the position of Head of the Federal Administration, subject to the compliance of the quantifiable objectives established in the Annual Management Plans.

#### **2.2.5. Advisory Council**

The Advisory Council is made up of representatives from the different sectors of society, both public and private, among which there are the Ministry of Economy and Production, the Central Bank of Argentina, the House of Representatives and The Senate, the National Social Security Administration, provincial government officials and renowned tax experts, who regularly assess and make Management Plans.

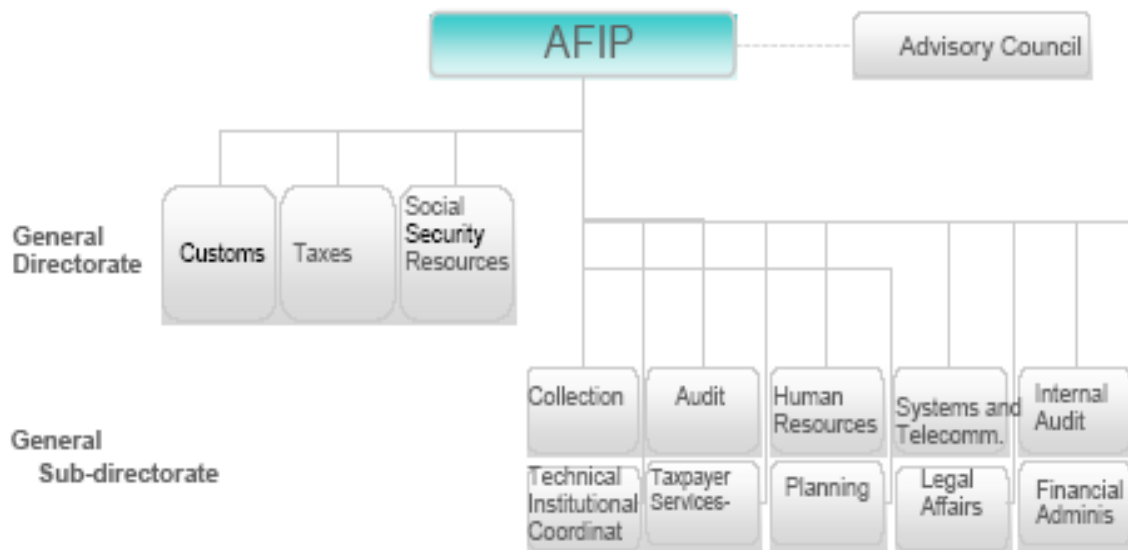
#### **2.2.6 Organization and structure**

Since the creation of AFIP, the organizational structure was gradually adjusted in order to improve management efficiency and facilitate its relationship with the community.

Regarding Customs, regional units were set up with competences similar to the regional tax units. Likewise, a managerial area was set up to provide a greater homogeneity to customs risk management, carry out investigations related to ex-post tax examinations and interact with customs of other countries.

Agencies and customs offices were also created and the jurisdictions of some units were readjusted.

As reflected in the following graphic that shows AFIP' s basic organizational structure, other significant modifications aiming for the creation of managerial departments of technical-institutional coordination, of services to taxpayers and customs users, and for financial administration users. Furthermore, a legal affairs department was created to centralize and provide greater uniformity to analysis, interpretation and advice in legal issues related to taxes, customs and social security matters.



## 2.3. Some numbers

### 2.3.1. Taxpayers

Tipo de Contribuyentes	Activos
Grandes	62.863
Medianos	2.499.609
Pequeños	2.869.227
<b>Total</b>	<b>5.431.699</b>
<b>Empleadores</b>	<b>826.347</b>
<b>Dependientes</b>	<b>8.024.000</b>
Importadores/ exportadores	32.000
Auxiliares de comercio	10.520

These taxpayers annually carry out an amount of about 108 million transactions (declarations and payments).

### 2.3.2. Collection

Origen de los recursos	Millones de pesos
Impuestos nacionales	188.670
Recursos aduaneros	41.200
Seguridad social	98.414
<b>Total</b>	<b>328.284</b>

### 2.3.3. Main taxes

Impuesto	Millones de pesos
IVA	91.116
Ganancias	55.552
Bienes personales	4.041
Débitos y Créditos bancarios	19.495
Combustibles	13.300
Derechos de exportación	36.055

### 2.3.4. Personnel

Organismos	Dotación
AFIP Central	3.299
DGI	13.196
DGA	5.188
DGRSS	1.487
<b>Total</b>	<b>23.170</b>

## 2.4. Main axes of action

### 2.4.1. Commitment to technology

The existing complex IT scenario at the time of integration is reflected in the fact that there were six development and IT operations areas, more than 130 small IT centers throughout the country, several IT architectures and development and operation platforms, many of them operating with their own database copies. According to their experiences in technological matters, some systems had been outsourced in different degrees.

In order to integrate the IT systems, it was necessary to overcome obstacles stemming from the IT asymmetries of the incorporated agencies and the diversity of the existing system architectures and computer platforms.

In this regard, there follow the main guidelines defined to redirect IT activities and consolidate the AFIP integration process:

- Recovery of IT independence in areas related to its essential functions;
- Re-engineering of pre-existing systems so as to adapt them to new homogeneous architectures;

- System integration and immediate updating of its databases;
- Opening of the organization towards the Internet;
- Implementation of the principle of transparency regarding the display of the databases' contents;
- Incorporation of non-intrusive control instruments.

AFIP has an IT strategy that emerged as the thread of a corporate strategy, at least in terms of IT, information and systems, which became the stepping-stone of any strategy to be developed. There is a good working team and the operational management and control processes are sound and stable.

AFIP's technological platform was internationally awarded, being the first and only public and private organization in South America to obtain the highest certification granted by the ICREA (International Computer Room Experts Association).

#### **2.4.2. Registry enhancement**

The Padrón de Contribuyentes (Taxpayers' Register) was conceived as a huge database and was made up of a large number of independently operating fragmented patterns that caused loss of control and problems to achieve a rapid flow of information, resulting in data inconsistencies and discretion.

That is why we have developed the concept of "*Registro Tributario* (Tax Registration)" as an "information system" that serves as support tool to monitor compliance of tax obligations and to manage cases of non-compliance. Widening the scope of application to all types of persons responsible for the payment of the tax under the customs, tax and social security legislation, and not just to taxpayers.

This allows the administration of information connected with those responsible and potentially responsible persons for the payment of tax liabilities, containing the information needed to adequately know the different responsible and potentially responsible persons, as well as the specific peculiarities of each of them so as to have a comprehensive view of them in each of its relationships with the AFIP.

### 2.4.3. Complete cycle

Currently, the AFIP has control and information systems based on homogeneous information technologies that allow a comprehensive view of the behavior of the taxpayer regarding their tax obligations.

Furthermore, this allows us to make a good use of multiple sources of the existing external information (cadastral and registries registries, information of the financial system, etc.). This efficient data cross-check improves the performance of the agency in charge of the collection and control.

The beginning of the collection of social security concepts and mainly, the adoption of filing tax returns on diskettes set a significant positive trend regarding the entry of massive digital information. In fact, the adopted solution solved the big operational problem on annually reception, capture and validation of millions of tax returns and payments, allowing the AFIP to have today 100% of the information in a timely manner and with high levels of reliability by virtue of the elimination of errors made by taxpayers on the elaboration, by banks at the reception or by the tax administration itself, at the data entry.

This technological breakthrough allowed to carry out the control of the obligations to the bitter end, including the seizure of bank accounts or property in case non-compliance continues.

### 2.4.4. Centralization of control processes

Management control of tax liabilities of all taxpayers, except *monotributistas*<sup>1</sup> and self-employed workers, is performed by means of the centralized system called "*Cuentas Tributarias* (Tax Accounts)" which received 99.86% of the tax returns and 74.27% of payments directly made by taxpayers via the Internet.

18.66% of taxpayers make their payments in about 6,000 bank tellers distributed in more than 70 banks, 7.05% by direct debit and phone.

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<sup>1</sup> *Monotributistas*: Taxpayers registered in the Simplified Regime.

Although the processes are centralized, it is possible that each operating area, depending on the taxpayers' relevance, perform customized actions before the general process. To such end, they are provided with the list of its major taxpayers, with obligations unfulfilled during that month, so that actions can locally be taken, in anticipation of the next control action to be performed.

Taxpayers have been segmented according to their fiscal relevance and / or repeated non-compliances, allowing to issue notification of unfulfilled obligations more often and close to the due date.

#### **2.4.5. Services to taxpayers and customs users**

The commitment to technology meant the possibility of providing better services to taxpayers, developing applications that permit them to make at home registrations, enter into guarantees, grant powers electronically, re-categorize, edit registration data, file tax returns, make payments, obtain schemes for payment facilities, check due dates, etc., thus saving resources not only for taxpayers and foreign trade operators, but also for the tax administration.

#### **2.4.6. Risk analysis and clever tax examination**

As regards tax examination, a greater availability of information and new alternative technologies allowed to consolidate and put into operation the systems named "*Fisco*" and "*Bafis*" with access and exploitation from regional operational areas, significantly increasing the chances of a better and more effective control that, while increasing the coverage of tax examination activities, allowed a more clever addressing of such activities.

The joint work of the tax and customs control areas has advantages which arise from articulating technical-operational actions in cases in which ex-post audits of certain foreign trade operators or transactions require the analysis of information and/or documentation which has an incidence on both fields.

Controls could aim at verifying the tariff classification and assessment of goods and at determining the economic reality of transactions and their appropriate tax treatment when documenting foreign trade transactions and a posteriori. Such is the case of the triangulation of exports under AFIP's investigation, through which an attempt is being made to liquefy the taxable base of transactions in tax havens or in countries with no or low taxes.

Activities carried out encompass not only the intervention of the areas in charge of customs assessments and investigations, and tax investigations and examinations, but also the central AFIP areas in charge of the analyzing transfer prices and managing the exchange of information among tax administrations from different countries with the purpose of gathering necessary evidence to support the fiscal position.

#### **2.4.7. Recovery of the investment level**

The search for economies of scale in resource administration and in infrastructure and management costs— communication networks, mail systems, input stocks, etc.— was also considered to make the use of available means more efficient.

This allowed that 120 agencies and customs were adapted, 22 real state properties and 450 vehicles were purchased, and that the building in which the hijacked merchandise is stored, was refurbished.

#### **2.4.8. Human resources development**

Besides the improvement of procedures, the organizational adaptations, the information integration and the new technological tools that may be incorporated, it is the quality of human resources that allows the challenges of the new organizational model to be overcome.

Following this approach, it was drawn up an agenda of priority issues which may help towards a more harmonic development of staff in the different areas and towards the setting up of a comprehensive organizational structure, among which there were the progressively compatibilization of labor rules in order to have similar working conditions for identical functions that take into consideration each operation's peculiarities and that facilitate internal mobility.

#### **2.4.9. Federal Role**

Given the need to promote cooperative mechanisms aligned with the Administration's purposes, interaction with other national, provincial and municipal agencies was promoted so as to exchange mutually relevant information, increase the perception of risk, fight comprehensively against non-compliance, as well as to reduce collection costs.

The use of a Single Tax Identification Number in tax, real estate and cadastral registries, and the homogenization of the collection scheme are two of the basic aspects fostered through agreements and covenants.

As part of the cooperative scheme adopted, the technological products developed by AFIP have been made available to the agencies that may require them. It is worth mentioning the following:

- the system for capturing tax returns and payments;
- the system for managing and administering human resources;
- the system for handling court orders and levying attachments over the Internet; and
- the single IT system for managing court-related issues.

#### **2.4.10. International positioning**

It is advisable for tax administrations to interact with other government agencies to promote normative stability or support the enactment of rules that help them carry out their functions, either by simplifying procedures, solving legal gaps or creating new instruments to fight against fraud.

Given these circumstances, cooperation integration and/or coordination of tasks among related agencies which have supplementary competences is productive, particularly among those organizations related to taxes,

customs and social security, regardless of the characteristics of each country.

## **2.5. Conclusions**

This paper has intended to describe the path Argentina walked along to adopt a tax administration model in which there is a convergence in the administration of tax, customs and social security resources.

The application of the single agency model in Argentina has been beneficial due to it generated positive synergies among its member organizations.

The control capacity has been enhanced through the design of coordinated and/or joint interventions. Specially, processes related to the main functions, such as registry, collection, recovery, control, tax examination and those connected to services offered to the administered individuals/businesses have been improved.

The level of development AFIP has reached nowadays would not have been possible if the Tax Administration had not had the resources available to implement the important changes required and had not reached high levels of IT application registered in the last years.

Although from the operational viewpoint, the resulting Agency strengthened its capacities, based on the synergies and joint efforts of the DGI, DGA and DGRSS, there are a few aspects related to the integration process to which special attention must be paid:

- Respecting the diversity of functions

For integration to be productive, it is necessary to bear in mind that the organizations that become part of the single agency have their own nature, diverse functions and characteristics, although supplementary to fiscal tasks. Likewise, respect for the different identities stemming from its historic structure –particularly in Latin

America, Customs are prior to national organizations- plays an essential role when it comes to consolidating the new agency.

- Identifying processes which integration add value for the organization

Management of customs, social security and domestic taxes has a scope and peculiarities that differentiate one from the other, so it is only possible to integrate the processes that, due to its characteristics, can be shared by different business areas. Anyhow, the integrated processes must respect specific issues in each environment.

- Developing an effective internal and external communication strategy

In order to minimize the natural fear and uncertainty entailed in all process of change, a clear communication policy must be developed with regard to the objectives pursued and the mechanisms to be used. The process should not be understood as the “absorption” of one agency by another so as to minimize the fears that entail the elimination of positions and tasks and the loss of vested rights. Therefore, it is crucial to clearly communicate the “integration” of institutions, ensuring respect for each identity.

- Having appropriate resources

Apart from developing the habitual processes to fulfill their functions, the agencies must make additional efforts to integrate their processes. It is therefore important to provide the institution with administrative flexibility to overcome the problems it must face on a daily basis and that stem from the merger process.

- Considering labor relations

When defining and starting up integration strategies, it is important to try to homogenize labor conditions and favor internal mobility. The development of human resource initiatives is closely linked to the existence of trade unions and specific collective agreements in each of the merged organizations.

Finally, it must be pointed out that cooperation among the three General Directorates allowed AFIP to be more efficient in its mission, increasing productivity and the quality of the service provided to the community by virtue of the joint programming and execution of control and facilitation actions.

Consequently, society has started to notice the presence of a more homogeneous, unified and strong organization, capable of detecting and prosecuting tax noncompliance.

The increase of risk perception in the society, the new services and the closer relationship with the community are converging to increase the average level of voluntary compliance.

Finally, it is worth mentioning that the AFIP has become an important pillar for the development and sustainability of the economy due to its own operative capacity and the combined efforts of public, private and social organizations to fight against illegal economy and unregistered employment, to reduce tax evasion and smuggling and to improve collection processes.