



CIAT Technical Conference

Improvement of the
Effectiveness of the
Tax Administration Through
New Organizational Models



Paris, France
October 18 to 21, 2010



**Inter-American Center of Tax Administrations – CIAT
General Directorate of Public Finances – GDPF**



CIAT TECHNICAL CONFERENCE



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

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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 38 countries: 29 countries from the Americas and 5 European countries as full members, and 4 countries as Associate Members: Czech Republic, India, Kenya and South Africa. 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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TOPIC 1

“THE MERGER OF COMPETENCIES IN THE TAX ADMINISTRATIONS AS STRATEGY FOR IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF PUBLIC ADMINISTRATION”

**THE MERGER OF COMPETENCIES IN THE TAX
ADMINISTRATIONS AS STRATEGY FOR IMPROVING THE
EFFECTIVENESS AND EFFICIENCY OF PUBLIC ADMINISTRATION**

Philippe Parini
Director General
General Directorate of Public Finances
(France)

*Contents. - I. Results achieved in terms of effectiveness and efficiency. II.
– The method: total merger. - I- Results achieved (1). - I - Results
achieved (2). - I - Results achieved (3).- II – The method: total merger
(1). II – The method: total merger (2).*

The example of the DGFIP

**I. RESULTS ACHIEVED IN TERMS OF EFFECTIVENESS AND
EFFICIENCY**

- Improved service for users and local authorities
- Better fiscal performance
- Costs reduction

II. – THE METHOD: TOTAL MERGER

- A landmark reform
- A reform based on progressiveness, transparency and dialogue

I- Results achieved (1)

An improvement of the service provided:

**> to taxpayers: the unified tax window (SIP, host Attorney of
proximity)**

- installation of 600 tax services for individuals, of the 700 planned and the development of tax domicile by proximity

- Installation of 88 single provincial directorates merging previous general treasuries and directorates of tax services

> **to local authorities**

- a new service offering proposal to the local authorities

I - Results achieved (2)

Improved fiscal performance

- > Reinforcement of the effectiveness of tax control
- > Collection improvement and unification of procedures

I - Results achieved (3)

A reduction in costs and an improvement in results

> **Productivity and efficiency gains that contribute to job reduction ...**

- back office files management and improvement of computer procedures (TéléIR, Fidji)
- harmonization of cross functioning management through the unification of statutes and the management rules
- process reengineering

> **... and costs reduction**

- rationalization of real estate developments
- rationalization of the budgetary management

> **improved results**

II – The method: total merger (1)

A landmark reform

- > reform decided by the President of the Republic in the framework of the General Review of public policies (GRPP)
- > ample merger of two large financial administrations: the DGI and the DGCP
- > total merger: merger of headquarters, merger of structures, merger of staff statutes, merger of cultures
- > a constant perimeter reform

II – The method: total merger (2)

A reform based on progressiveness, transparency and dialogue

- > **Systematic experimentations for all projects previously implemented: anticipate and prepare for change**
- > **progressive implementation timetable covering the 2008-2011 period**
- > **Constant internal communication of executives and agents at site: explain and inform**
- > **nourished social dialogue with staff representatives**

ANNEX 1 - DGFIP MISSIONS

In tax and real estate matters

- Legislation and regulation development
- Assessment and collection of State and local taxes
- Control and fight against tax fraud

In the field of public management

- Control and payment of the State expenditure
- Management of the accounts of local authorities and their institutions
- Evaluation and management of the public property – the State's real estate policy
- Participation to public action in the field of economic development

ANNEX 2 - KEY FIGURES OF THE DGFIP

- **125 000 agents with a network of 5000 services distributed throughout the territory**
- **Tax missions**
 - > management of 35 million taxpaying households in the area of income tax
 - > management of 3.8 million companies subject to VAT
 - > collection of approximately 500 billion Euros on behalf of the State, local authorities or certain bodies

- **Implementation of public expenditure**
 - > 548 billion Euros paid to creditors of the State
 - > 187 billion Euros paid to creditors of local authorities

- **Close to 170 000 local authorities budgets and public establishments managed**

Case study

Topic 1.1

THE MERGER MODELS, THEIR COMPATIBILITY AND VIABILITY WITH THE TAX FUNCTION

Rudy Villeda Vanegas
Superintendent
Superintendency of Tax Administration
(Guatemala)

Contents: *Executive summary.- 1. Background .- 2. Diagnoses .- 3. The government's strategy.- 3.1 Design of the project to create SAT.- 3.2 . Substantial complementary components .- 4. The transition and take-over.- 5. Outsourcing.- 6. Conclusion*

EXECUTIVE SUMMARY

Throughout the 80's and during the first half of the 90's, Guatemala underwent a process of political change which called for reviewing the structure and operations of its public administration. This process converged with intensified negotiations to finalize a long-lasting armed conflict. The convergence of both efforts evidenced the importance of considering specifically an integral tax reform for the country, in addition to the fact that once the Peace Accords were signed, one of them would attach a crucial role to the administration with a view to reaching a minimum tax burden. After significant legal reforms, keeping the functions of revenue, auditing and administration of centralized customs under the Ministry of Public Finance, although allocated to the Directorates of Internal Revenue and Customs, achieved improvements in the levels of tax collection, even if these were still below the expected targets. Upon diagnosing the administrative issues that were halting improved collection, government authorities concluded it was important to create a decentralized entity to become responsible for revenues, auditing and customs, including modern methods for planning and activity management that would result in substantially improved compliance and taxpayer service. With the involvement

of several international organizations which provided technical and financial assistance, noteworthy among which were the AID, IDB, WB, CIAT, IMF and the EU, an integral tax reform was designed in the mid 1990's, which gave rise to the Superintendence of Tax Administration of Guatemala. Such reform deemed SAT an important part of a major turnaround and modernization of the mechanisms to facilitate taxpayer registry; incentives to tax compliance in the area of returns, delivery and settlement of taxes and rigorous punishment of all forms of tax evasion and avoidance. In the pages that follow, we describe the relevant features of the process which created SAT.

1. BACKGROUND

Twelve years have elapsed since the Superintendence of Tax Administration of Guatemala (SAT-GT) started operating as a decentralized government entity, with competency and jurisdiction throughout the national territory for the attainment of its objectives, enjoying functional, economic, financial, technical and administrative autonomy, as well as legal status, own equity and resources.

Its creation was designed in the context of a period of the country's history when democracy was starting and becoming consolidated, and a good formula was being sought to establish a peace process, the negotiations for which led to adhering to a final ceasefire following a protracted period of armed conflict.

From the tax perspective, the ten-year period from 1986-1996 bears witness of the completion of several integral tax reforms which included attempts to modernize the internal tax administration and customs. At the time, the average annual tax burden ranged from 6-9% of the GDP. Low collection levels limited investment in basic infrastructure, as well as spending in social sectors with a significant impact on poverty alleviation. In addition, a sense of unease had become widespread among taxpayers, particularly among those who contributed most, owing to the opacity, intent and slowness of response of administrative processes, which was having an impact on collection levels.

It is a known fact that tax collection reveals as much about the structure of the tax system as it does about the shortfalls of the tax administration. In the period we referred to, the VAT rate was among the lowest in Latin America (10 percent), with numerous exemptions and legal loopholes which facilitated avoidance. Personal income was taxed at

rates of 15, 20 and 25 percent with a wide margin to generate taxable income owing to deductions arising from VAT payment, exclusion of annual bonuses and pensions, small withholdings for salary-earners and no withholdings or regular payments during the fiscal year for self-employed workers or professionals. In fact, individuals and legal entities' income tax accounted for 20 percent of total collection in 1996, while VAT yielded 36 percent and customs duties accounted for 24 percent of the total tax revenues.

Faced with this reality, the central government undertook to seriously regard a reform process which would both review the legal grounds for the tax system and meet the need of raising collection levels by simplified procedures. This implied looking into the forms of operation of the existing administration thoroughly to facilitate the establishment of principles to reform procedures with a view to increasing the public spending capacity.

The purpose of this paper is to present a summary account of the events leading to the creation of the Superintendence of Tax Administration of Guatemala which, as will be noted, exceeded the mere organization of a renewed and invigorated entity responsible for collecting and auditing domestic and foreign trade taxes. To this end, the paper has been structured in four main sections. Firstly, the overall aspects which provided the context for the creation of SAT; secondly, a description of the overall government strategy to reform the tax system as a whole, including the organization of the new entity; thirdly, the components to be reformed as a prerequisite for optimum operations and the take-over of the new entity; fourthly, the initial steps in the outsourcing as support to the collection and audit agency's operations.

2. DIAGNOSES

While the process of negotiation and signing of the Peace Accords progressed, from 1994-1996 the Guatemalan government worked intensively to diagnose the operation of the Guatemalan system of tax administration.

As a result of these diagnoses, severe weaknesses were identified in various areas:

- a) The organization of separate services for the collection of domestic taxes versus those coming from foreign trade

as centralized offices of the Ministry of Finance revealed a complex and confusing structure based on functions (collection and auditing) and taxes (separate units for the ISR and VAT). There was no clear separation between planning and operations. In customs, the administration was particularly weak, and there were neither procedures manuals nor officially recognized and approved working processes. Coordination between both services was either weak or non-existent. This fact, coupled with the little interaction with the Nation's Attorney General's Office, led to slow investigation and due process of cases of tax fraud. Inadequate service to large taxpayers and the effectiveness of the collection program using the bank system were limited on account of their high cost; rudimentary processing of forms and slow remittance of payments to the government resulted in restricted availability of government resources.

- b) The existing policies on human resources, training and remuneration levels held up productivity improvements. Only 11 percent of the staff had a university degree and 57 percent had completed secondary education in the Domestic Revenue Directorate, while in Customs less than 20 percent had completed secondary schooling. Salaries were not competitive, there was no process of selective recruitment or promotion based on merits and there was no regular training program. The government and the public perceived corrupt practices in the tax administration.
- c) The customs service, in particular, had serious institutional flaws in connection with poor management, complex and bureaucratic processes, undertrained human resources, low salaries, lack of adequate financial and physical controls. Bureaucratic processes were managed at the staff's discretion; the physical infrastructure was dilapidated, the lack of transparency in collecting customs duties and the known resistance to change were also evident in the diagnoses. Owing to serious corruption cases, the government conducted an official audit of the customs administration and determined that only a substantial institutional reform program could achieve long-term improvements.
- d) Administrative budgets were inadequate, with several customs facilities lacking electrical power and telecommunication

capabilities. Per diems recognized to tax auditors traveling to the interior of the country were insufficient, there were scarce vehicles available and the government's capacity to investigate sophisticated taxpayers' schemes was limited.

Furthermore, the diagnoses revealed that attempts to strengthen the tax administration had had limited success, mainly because of the issues which prevailed in the organization and management of human resources. As a result of this and after studying a number of international experiences, the government decided to create a new structure based on modern operational procedures and performance-based staff management policies.

The reform further focused on tax evasion, which has been an endemic scourge in Guatemala. Some progress was achieved, in particular by decentralizing and creating updated systems and databases, but many of the flaws of the tax administration still prevail. A few of these are:

- a) Limited identification of omitted payments;
- b) Inadequate design, rollout and sequential follow-up of the auditing program;
- c) Poor utilization of databases to match information;
- d) Insufficient number and poor quality of tax auditors;
- e) Lack of an administrative career for employees, including staff and remuneration policies;
- f) Lenient transit controls and inspection/auditing at customs;
and
- g) A poor Tax Code in the definition and punishment of offenses and crimes, including complicated procedures for liquidating businesses incurring in default vis-à-vis the Treasury.

3. THE GOVERNMENT'S STRATEGY

The authorities started an ambitious program of reform of the public sector with a view to reaching the goals of poverty alleviation and peace

consolidation after 36 years of armed conflict. To that end, programs were designed to reform the civil service, the ministerial structure, justice administration, as well as to modernize the government's financial management and increase private sector participation in infrastructure services. The recently signed Peace Accords set the government target of increasing revenues to 10 percent of the GDP by 1998, 11.4 percent by 1999 and 12 percent by 2002 as a basis to support priority social spending. The tax administration reform was a key element in the government's strategy to raise revenues, minimizing economic distortions and promoting transparency in the collection of domestic and customs taxes.

After several years of marginally successful efforts to strengthen the existing tax administration system, the government decided to create an autonomous Superintendence of Tax Administration with a new organizational structure and reporting lines.

The creation and successful operation of SAT, arising from the introduction of modern operational procedures and performance-based staff policies, duly complemented by priority steps to improve voluntary tax compliance, reduce evasion and strengthen taxpayer services, gave rise to the technical and administrative structure which would enable enhanced effectiveness, efficiency and equity in the tax administration. In preparation for this, the government had made consultations and considered the outcomes of the experiences in other Latin American countries, and resorted to a large number of both national and international experts. In this regard, it is important to underscore the technical and financial support and follow-up provided by entities such as the Agency for International Development (AID), the Inter American Development Bank (IDB), the World Bank, the Inter American Center of Tax Administrations (CIAT), the International Monetary Fund (IMF), the United Nations Development Program (UNDP) and the European Union (EU).

In view of the urgent need to increase revenues, the government proposed that SAT started operations in early 1998. Given that this goal required intense lobbying at the National Congress, the government led an effort in public education which included workshop seminars involving all political parties and representatives from civil society, with visits from high profile experts including the Managing Director of the International Monetary Fund and the Commissioner of the European Union and lobbying with key business groups.

3.1 Design of the Project to Create SAT

With the purpose of modernizing the tax administration, in early 1997 the Government of Guatemala, through the Ministry of Public Finance, undertook a series of actions aimed at turning around and strengthening the country's tax system. One of said actions was the creation of the Superintendence of Tax Administration – SAT.

These efforts resulted in the Project to Create the Superintendence of Tax Administration, which began in September 1997 with the setting up of the work team responsible for its management. Said project was organized in a Managing Unit, reporting to the Project Director and the coordinators of the components of Revenues, Auditing, Customs, IT, Human Resources, Human Resource Transition, Administrative and Financial Planning and Follow-up, Organization and Regulations.

The lessons learned from previous tax administration projects in other countries which were included in the project to create SAT were:

- a) Ensuring commitment with and due ownership of the integral reform through extensive and deep dialog with the government's authorities in all aspects relative to the project's design and implementation, in addition to submitting the project to a wide audience including the directors of the executive body, congress leaders, civil society and key leaders who might enthusiastically replicate the benefits of the project's execution and the commitment toward its implementation;
- b) Creating a Project Coordination Unit; and
- c) Ensuring appropriate emphasis in the organization, work processes human resource selection, remuneration and training, without overemphasizing IT. The funding obtained for the project supported the most significant efforts to promote tax compliance both through improved services and in implementing an audit effort that raises the perception of the risk of detection of non-compliance.

The project drew especially from several best practices based on the experience of the World Bank:

- a) Organizing the tax administration more on a functional basis than on a tax basis;

- b) Vertical delegation of authority, supplemented with training and improved management information systems;
- c) Prioritizing the focus on reviewing and strengthening the legal and regulatory framework;
- d) Scheduling a social communication campaign to educate taxpayers on their rights and duties; and
- e) Relying on a unified taxpayer registry to monitor tax compliance and establish a tax current account per taxpayer.

The project further benefited from lessons learned from previous technical assistance transactions:

- a) Specific, though flexible, action plans were developed for every component focused on products, defining assessment and performance criteria and indicators; and
- b) Criteria were established to ensure careful supervision of the Project, especially regarding procurement and consultant oversight, with a view to avoiding inadequate budgetary control and weak management.

The SAT was designed to be autonomous in the practice of personnel recruitment and remuneration with the purpose of attracting and retaining competent and honest human resources.

The new institution was to be led by a Board of Governors. This supervisory body seeks to build credibility in the Superintendence, supporting the Government's intent of establishing a tax administration system which is politically neutral and professional.

Thus, the demands for technical assistance included assets (including IT) and training to complete the design and satisfactory launching of the new Superintendence, by considering three specific areas:

- a) Legal Framework. Technical assistance to prepare the internal regulations and complementary legal provisions regarding:
 - (i) Management of SAT, (ii) Board of Governors by-laws; (iii) human resource and remunerations policy; (iv) contracts and procurement; and (v) financial management of SAT.

- b) Institutional Development. Technical assistance and IT for the detailed design and establishment of the organization, including: (i) the institutional structure and operations that pursue a clear definition of authority and reporting lines for functional and regional units, separation between the planning and operations departments and appropriate coordination among all units; (ii) analysis and description of all jobs and detailed handbook of jobs; (iii) establishment of a system of contracting and procurement to ensure appropriate purchases, maintenance and administration of an asset inventory; and (iv) establishment of a modern system of budgeting and accounting (including IT), tied to the integrated financial management system developed by the government internally, including the design of performance indicators, as well as internal auditing and control systems.
- c) Development of Human Resources. Technical assistance and training were included to create a modern HR system by means of: (i) the design and implementation of a new personnel system and hiring procedures, including the capacity of subcontracting; (ii) developing a personnel database; (iii) researching market levels of compensation and creating a new competitive salary structure and the capacity to adjust salaries and grant benefits as required; and (iv) developing a personnel assessment system to serve as a foundation for recruitment, promotions, training and dismissals. Likewise, consideration was given to the possibility of retaining a private firm to advice on the design and implementation of personnel selection processes through performance tests and personal inquiries to ensure SAT started operations with a highly qualified and motivated staff. This selection process was opened up to all the personnel working at the Internal Revenue and Customs Directorates. Furthermore, an action plan was considered to train the new staff with the purpose of minimizing the effect on revenues, provide support for the change of Management without losing sight of the efforts to create a new service-centered culture within the organization.

The process of personnel assessment, classification and selection included the hiring of the University of el Valle de Guatemala with a view to completing a first phase of recruitment of the executive cadres and middle managers of the functional structure.

The positions filled were those of managers, deputy managers, heads of department and auditors.

Upon hiring the executive cadres and middle managers, the job profiles of all departments were developed to conduct the following phase of the personnel recruitment process, namely for professional, technical and support staff.

The recruitment process started with a massive call by an advertisement placed nationally in major social communication media. Subsequently, the companies hired started to receive and screen applications, conduct interviews to verify the data and select candidates for the jobs. Work references were checked on an eligible candidate basis and psychometric, technical and personality testing was performed.

In parallel to the tests, recruiting companies analyzed information, started social and economic inquiries and scheduled technical interviews carried out by the Mayors and Managers of SAT.

While progress was made in the internal structuring process of the organizational model, steps were taken to develop other components of the tax reform strategy which would contribute to successful operations at the newly created institution.

3.2 Substantial Complementary Components

(1) Facilitating tax compliance

A significant campaign was undertaken to improve tax compliance by:

- a) Simplifying processes and modernizing IT systems with a view to increasing the speed and accuracy of revenues as well as facilitating the expansion of tax returns;
- b) Creating a Special Taxpayer Unit to improve service to major taxpayers; and
- c) Establishing Taxpayer Service Units to provide advice to taxpayers on compliance with their tax duties, which included:

- i) Process reengineering. Technical assistance, IT and training to design and support the implementation of tests and reengineering of at least five key processes which affected internal and foreign revenues, with a view to improving results (expediency, efficiency and effectiveness), transparency (by appropriate controls and supervision), and taxpayer service (process simplification and equity). This has implied analyzing the processes in use, developing improved and modernized processes and procedures, planning and implementing changes required relative to IT investment and performance monitoring under processes and procedures which support their continuous improvement.

- ii) In Customs: the government had started the self-assessment process, designed mainly to reduce discretionality of customs auditors, relieve them from the responsibility of collecting customs duties and delegating on customs agents and importers the responsibility of valuing imports, subject to random inspections triggered by pre-selection criteria identified in individual cases by a centralized IT system. This process was reviewed and reinforced with the project. Other reviewed processes were:
 - Control of transit and storage of imports;

 - Monitoring of exports (especially for exporters who benefit from special import regimes).

The Government had identified the priority processes in Inland Revenue that were to be supported by the project:

- iii) The design and implementation of a reviewed (and renegotiated) system of tax revenues through a banking system which required the processing of forms, identification of payments associated to individual taxpayers and timely transfer of revenues to the central government, and

- iv) The process of appeals for tax recourses which was substantially changed by reforms to the Criminal

Procedural Code in the sections relative to Crimes against the Tax System and Offenses against the Tax Legal Order.

- d) Another initiative was the review, strengthening and expansion of the Unified Tax Registry program which was then made up of the outdated information encompassing a small percentage of the tax base.
- e) Special Taxpayer Service Unit. Technical assistance was obtained to design and support the establishment of a unit that would serve primarily around 500 taxpayers who account for around 65 percent of the revenues. This unit would provide validation of the information received at the time of submitting assessments and paying taxes, advising in the detection and follow-up of taxpayer omissions immediately after the due dates and providing timely advice and service to these taxpayers.
- f) Taxpayer Service. Technical assistance, IT and training to develop a national program to disseminate information on various basic aspects relative to tax responsibilities all taxpayers must be aware of. The intent was for taxpayers to minimize the time they devote to filling out forms, answering questions on the new procedures adopted by SAT and reducing the cost of voluntary compliance. In addition, taxpayers would have access to orientation from tax experts. The design further included an information system to solve queries by telephone or by other means of communication in order to reduce the workload at taxpayer service centers. A related activity was the completion of surveys amongst taxpayers as a mechanism to improve taxpayer service.

(2) Strengthening tax legislation enforcement mechanisms

Complementing the voluntary tax compliance improvement program and in connection with the creation of the new Auditing Department, there was a specific proposal to significantly increase the government's auditing capacity and link the information obtained both from inland revenues and customs. This implied:

- a) Revising the legal Framework to step up its enforcement in investigation and auditing, identification and collection of past due taxes and sanctions enforcement;

- b) Design and strengthening of the audit program;
- c) Modernization of IT systems of the audit function; and
- d) With technical assistance, existing laws and regulations were reviewed, as well as their enforcement and possible amendment, whenever necessary, in the areas of: (i) access to third-party information; (ii) restrictions of government access to information held by other government agencies; (iii) capacity to obtain and use taxpayer information associated with their tax obligations; (iv) capacity to obtain and use accounting documents, inventories and other taxpayer documents to support audits; (v) leverage information obtained while investigating business establishments; (vi) capacity to request taxpayers and third parties to submit returns and evidence to the courts; (vii) eliminating the cap fine of 20 percent of the taxes incurred; (viii) eliminating the requirement of three offenses on the same fault to temporarily close a business establishment; (ix) reducing the number of appeals; (x) reducing the process stages; (xi) eliminating the central role of attorneys in cases of tax fraud; (xii) official stamping of invoices before they are distributed to businesses; (xiii) starting partial payments in case of appeals for tax fraud; and (xiv) restrictions to accessing annulment after a negative court appeal.

(3) Strengthening audits

- a) Technical assistance, IT and training that were used in developing and deploying: (i) selection procedures, scheduling and enforcement of audits. Cases backed by data prepared by SAT and other entities; (ii) procedures to supervise and follow up audits; (iii) programs to reinforce invoice and receipt controls for business establishments; and (iv) programs for the use of modern IT gear, including laptop computers in the different phases of physical inspections and financial audits.
- b) Modernization of auditing IT Systems. Technical assistance, IT and training to design and deploy a graphic, multifunctional IT system to support a modern audit program.
- c) Technical assistance, training and some infrastructure support to strengthen the audit function: (i) supporting a measurable increase of quality and number of specialized auditors; (ii)

creating a specialized training program to significantly improve auditors' capacity; and (iii) purchasing vehicles to facilitate physical inspections.

(4) Social communication

This component served to support the necessary activities to ensure understanding and public support of the objectives of a strengthened tax administration, to inform and educate the general public about the benefits that would result from creating and running a professional and autonomous tax administration entity, the amendments to be introduced in the legislation and tax regulations, the new mechanisms of tax compliance and auditing, as well as taxpayers' rights and duties. A firm specializing in social communications was charged with conducting focus groups and opinion polls on SAT, preparing public relations materials and holding public workshop seminars and meetings, publishing newsletters and brochures, holding information fairs and open discussions using communication media to explain the changes associated with the implementation of SAT. Surveys were used to assess public understanding and awareness regarding the new legislation and procedures to create feedback loops with the purpose of developing better tax policy and a more efficient, effective and respected tax administration. In addition, an educational program to explain taxpayers' rights and duties was made available for the three educational levels (primary, secondary and higher) in coordination with education authorities. Internally within SAT, this instrument would also work with the goal of supporting the changed administration focus and enhanced knowledge and commitment toward the goals of the organization.

4. THE TRANSITION AND TAKE-OVER

Decree Law 1-98 from the Superintendence of Tax Administration sets forth that as from the effective date of the creation of SAT and within a six-month period, SAT should be organized, assess, establish and deploy the necessary procedures and systems to operate, and gradually take over, either wholly or partially, the functions, attributes and competencies allocated to the General Directorate of Internal Revenue and the General Directorate of Customs, as well as the tax auditing functions that were allocated to the Banks Superintendence.

In order for SAT to start operations and be prepared to absorb the functions of the mentioned directorates, it was necessary to have the management structure, appropriate facilities, appropriate and qualified human resources, as well as the tax, accounting, financial and administrative IT systems required for the efficient operation of the institution. In addition, a work team was put together to carry out the transition within the Internal Revenue Directorate.

One of the main goals of its integration was to prevent revenues from declining over the period between the effective date of the law which created SAT and the take-over date of the collection function. On June 9, 1998, the work team took over control of the following critical areas:

- ✓ General Directorate of Internal Revenue
- ✓ Department of Value Added Tax (VAT)
- ✓ Department of Income Tax
- ✓ Department of Reception
- ✓ Department of Tax Registry of Vehicles
- ✓ Department of Auditing
- ✓ Department of IT
- ✓ Department of Analysis and Assessment
- ✓ Administrative Department
- ✓ Departmental Coordination

Regarding the General Directorate of Customs, two work teams were created with the purpose of coordinating and facilitating the transition programs from this General Directorate to the Customs Administrations of SAT.

A group was put together to facilitate and enable delivery and reception of values, goods, files and staff responsibilities left by the Customs Directorate to the area responsible for these in the Public Finance Ministry. The other work team was in charge of defining the actions leading to the timely inclusion and delivery of values, goods and furniture selected as part of the new institution's property.

SAT took over customs functions in February 1999 and immediately absorbed the customs managed under the intervention of the General Directorate of Customs and the Vice President's office of the Republic.

5. OUTSOURCING

Initial revenue and management efforts were aimed at providing channels to attract inland and foreign trade revenues and timely, reliable and useful information applicable on revenues.

Retaining collection entities was emphasized, with new processes to enable daily reception of data on revenues raised and direct transfer of these to the Central Bank (Banco de Guatemala).

To this end, a pilot program was started for the new collection system with two banks with government participation, while at the same time the traditional system was kept with the rest of the banking system. In the new system, banks entered the data contained in the body of the returns, enabling updated taxpayer records and expeditious transfer of the funds raised to the National Treasury. Together with the development and regulation of the revenue and collection system, a management model was designed to ensure an efficient collection process. This implied redesigning all assessment forms and payment receipts with the purpose of standardizing and regulating them, thus simplifying the filling of the body and immediately capturing the basic data therein.

Including Banks in the system as direct collection agents of tax funds renders the collection of financial resources transparent and makes collection efficient, since revenue data is available immediately, thus eliminating the discretionality of collection employees and reducing their intervention to working with the deposit records sent by the banks, which is the basis for matching data on the effective collection as per the deposits in the Banco de Guatemala.

6. CONCLUSION

After twelve years of activity and having overcome critical times, which is proof of the institutional soundness of the new agency, it can be stated that the initial design and organization of SAT rendered it flexible enough from the organizational perspective to modernize its operations along the way, like with any other entity requiring an adjustment to the changing environmental conditions, without losing sight of the core reasons behind its creation.

THE MERGER MODELS, THEIR COMPATIBILITY AND VIABILITY WITH THE TAX FUNCTION

Nahil Hirsh

National Tax Superintendent
(Peru)

Contents: Summary.- 1. Introduction.- 2. The international experience.- 3. The merging process in Peru.- 3.1 Merger backgrounds.- 3.2 Key actions.- 3.3 Difficulties encountered in the process consolidation.- 4. Strengths and weaknesses.- 4.1 Strengths and opportunities.- 4.2 Weaknesses and threats.- 5. Conclusions

SUMMARY

The merging process between internal tax administrations and customs administrations has increased over the last years; however, implemented merger models usually vary according to diverse factors typical of each country. Among the primary decisive factors of this merger are: the promotion of regulatory stability and the enactment of rules through more direct cooperation; sharing of relevant information intended to reinforce the fight against tax default and smuggling; cost reduction through economies of scale; and increased efficiency of the organizations involved through access to a set of enhanced resources as a result of the integration.

Merging processes in several countries have achieved positive results which could be summarized in the following aspects: common support bodies, centralization of strategic planning and territorial decentralization of operating aspects, single and robust database for sharing information, integration of tax collection, debt collection, supervision and support processes, and common training processes to overcome cultural resistances within the organization.

In the case of Peru, the merger between the CUSTOMS office and SUNAT was one of greatest transcendence in this country, not only because of the number of workers involved but also because of the

relevant collection function these offices perform. Both organizations were politically, financially and managerially autonomous, something that contributed to the performance of their institutional goals. The decision to merge both institutions occurred within a context in which the Peruvian State was starting a modernization process of the public management, intended to enhance the public sector's functions without duplicating efforts and resources.

This merging process in Peru was targeted at improving the efficiency of tax and customs systems and processes, cutting down costs in order to improve management thereof and enhancing and increasing services to taxpayers and foreign trade operators. Hence, the actions performed by SUNAT intended to integrate the technological infrastructure, standardize administrative procedures, simplify staff management processes and integrate business areas, among other aspects.

The implementation of the merging process experienced a number of difficulties, such as the specialized knowledge of each office's professionals, the geographical dispersion of the staff throughout the national territory, the resistance to change and the differences in organizational cultures. An overall evaluation of such merger shows a series of strengths, such as the cost savings for the State and the economies of scale, integration of both offices' infrastructure, expansion of the budget to finance customs projects, compliance cost reduction in both offices, detection of tax evasion modalities, etc. The downside is the absence of a real integration of operating processes, a weak integration of IT systems and platforms and a lack of unified rules and procedures, etc.

The merger started by SUNAT in 2002 should be understood as a process, and as such it presents advantages and achievements, as well as disadvantages and delays, as stated here before. Nevertheless, an objective analysis of the merger shows a rather positive balance, whose consolidation will depend on the decisions and actions adopted in the short and medium term in order to overcome the challenges arising from the process.

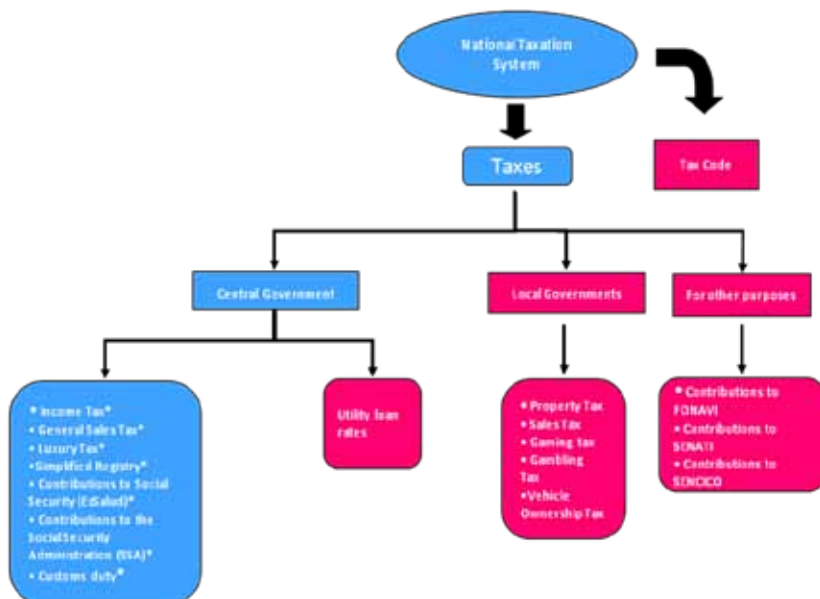
1. INTRODUCTION

Among the strategies that tax administrations have been adopting in recent years, the merger with other State organizations sharing similar or complementary goals has been one of the most important ones, not only with a view to gaining more efficiency in the use of the public budget, but also as a mechanism that contribute to make them

more effective in the performance of their functions, by building on the diverse strengths that each organization can contribute with: human resources, technology, logistics, operating experience, etc.

Over the last years, the Peruvian Government has carried out multiple mergers of public bodies, the largest being the one executed, since July 2002, between the institution in charge exclusively of collecting internal taxes (National Superintendency of Tax Administration – SUNAT) and the one responsible for collecting customs duties and facilitating foreign trade (Customs).

As it can be observed in the graph of the Peruvian tax system, today the SUNAT is responsible for administering and collecting virtually all the taxes pertaining to the central government, namely: Income Tax, General Sales Tax, Excise Tax, Single Simplified System, social contributions to ESSALUD and ONP, as well as customs duties. Until 1999, the contributions to ESSALUD and ONP were collected by these same institutions, while customs duties were administered by the Customs Office until mid 2002.



In accordance with the request from the organizers of this CIAT Technical Conference, this paper will be concerned mainly with the backgrounds of SUNAT’s merging process and the progress achieved so far. We will begin by summarizing the most important aspects that the international experience shows in this field; we will continue with

the merger systematization process in Peru, and then we will highlight main strengths and weaknesses. Finally, we will present some conclusions.

2. THE INTERNATIONAL EXPERIENCE¹

When two public organizations present a high degree of identification, they may very well establish cooperation bonds; however, this bond may be fragile in the absence of hierarchical subordination or coercion power. In this context, the importance of merging lies in that it allows passing from a simple cooperation between two public entities, to grouping these organizations under the direction of one same entity having specific goals.

There are several merging processes of the functions of Internal Taxes and Customs, which may vary as per the administrative structure of governments (unitary or federal states), the country's legal system, the predominant economic model, the cultural aspects, among other factors. Thus, a new organization can be created as a result of that merger, or else allow that one of them absorb the functions of the other.

Also, merging models usually vary as per the degree of integration of the entities involved, ranging from a maximum separation, which implies maintaining the functions of the existing bodies almost unaltered, with only one administrator in charge of setting forth strategic guidelines and controlling the lawfulness of its acts, to a greater integration of processes that favors the integration of strategies, programs, rules and functions. An intermediate integration conveys establishing two levels of integration: one with a single administrator establishing strategies, plans and programs, and conducting operations and common services; and another level, where tax and customs management is performed in decentralized fashion.

The deciding factors of a merger between Internal Tax and Customs administrations are, in general, the promotion of regulatory stability and the enactment of rules through more direct cooperation. Besides, customs and internal tax administrations usually have a great number of taxpayers in common, so sharing information – as a result of the merger – may increase the fight against tax default and smuggling, and reduce compliance costs.

¹ This section builds on the interesting reflections of Roselló (2007) and Rachid (2007).

Another relevant aspect is that the integration of support processes yields benefits related to the centralized administration of the body's resources, the efficiency in the use thereof and cost reduction as a result of the economies of scale. Additionally, the integration of this type of processes allows greater rationalization in the administration of resources and increased uniformity in the interaction with taxpayers. The areas responsible for operating management can also increase their efficiency, because they have access to a set of enhanced resources resulting from the integration.

The international experience offers us several merging cases of Customs and Internal Tax administrations, some of which we will summarize below. In the case of the **United Kingdom**, the merger took place in 2005 through the creation of a new organization that set out a number of goals:

- Improve taxpayer services and cut down compliance costs through a standardized policy
- Attain greater effectiveness as a result of the alignment of strategies, equal treatment of information, integrated audits and a more flexible resource allocation
- Promote greater fairness as a result of corrections in the payment of taxes
- Gain more efficiency through economies of scale

In the case of **Brazil**, one single organization has been responsible for collecting customs duties and internal taxes since 1968, the *Secretaria da Receita Federal*, which was created due to the need of modernizing tax collection and supervision, promoting greater integration between the Treasury and the taxpayers (facilitating compliance with tax obligations) and accessing individual citizen's private information. According to Rachid (2007), there is a perfect harmony within such organization, generating a number of benefits: integrated information systems, flexibility to allocate human resources, better programming and follow-up of Treasury's revenues, resource integration to fight against evasion, etc.

In the case of **Argentina**, the Federal Tax Administration (AFIP) was created in 1997 as a result of the merger between the General Office of Taxes (DGI) and the National Customs Administration, now denominated General Customs Office (DGA). Under this merging model, the DGI took over the management of internal taxes while the DGA took over the control of foreign trade; that is, each institution retained its specific functions and operating resources, while the

horizontal processes common to the entire organization² were assigned to the AFIP.

As for **Canada**, the tax administration went through a merging process of internal and customs duties in 1992, creating the Canada Revenue Agency. However, in 2003, both offices were separated again due not to tax administration reasons but to internal security motives associated with the functions performed by customs. The Canada Borders Service Agency was created in this context.

MERGERS OF INTERNAL TAX ADMINISTRATION AND CUSTOMS

Country	Organization	Year
Brazil	Secretariat of Federal Tax	1968
Spain	State Agency of Tax Administration	1990
Denmark	SKAT	1990
Canada	Canada Revenue Agency	1992*
Colombia	National Tax and Customs Office	1993
Venezuela	Customs and Tax Administration Integrated National Service	1994
Mexico	Tax Administration Service	1995
Argentina	Federal Administration of Public Income	1997
Austria	Federal Ministry of Finance	2003
Ireland	Office of the Revenue Commissioner	2004
United Kingdom	Her Majesty's Revenue and Customs	2005

** In 2003 both businesses were separated once again
Source: Webpages of the tax administrations
Self-Prepared*

Based on the merging experiences of countries such as Brazil, Argentina, Colombia, Venezuela, Spain, Mexico, Guatemala, the Netherlands and Canada, we can identify the following positive common results, among others:

- Common support bodies intended to favor coordination and attain economies of scale

² Areas responsible for preparing plans and establishing programs, along with the units of IT, internal audit, planning, legal affairs and administration of human, financial and physical resources.

- Centralization of strategic planning and territorial decentralization of operating aspects
- Single and robust database for common use of information
- Integration of tax collection, debt collection, supervision and support processes
- Common training processes intended to overcome cultural resistances in the organization

3. THE MERGING PROCESS IN PERU

3.1. Merger Backgrounds

Since 2002 to this date, the Government has promoted and carried out 37 mergers of public bodies. Of these, however, the one having greatest transcendence – given the number of persons involved and the functions performed – was the merger between the institution responsible for collecting internal taxes (SUNAT) and the one in charge of customs collection and foreign trade facilitation (Customs Office). In July 2002, through the Executive Order N° 061-2002-PCM, the Government ordered the merger of the National Superintendency of Customs – CUSTOMS – and SUNAT, the latter acting as the merging company. In this context, the SUNAT was instructed to initiate its operations as a newly merged entity from January 1 of 2003.

Prior to the merger, the institutional development achieved by SUNAT allowed the entity to lead issues of tax collection and taxpayer services, in addition to having an enviable physical and technological infrastructure in virtually all the national territory. On the other hand, Customs had attained international quality levels in the development of processes targeted at facilitating foreign trade and was a role model of E-Government application in Peru and Latin America.

Back then, the great capability of interrelation, adequate technical knowledge and ethical principles was identified as a strength common to both institutions, which could pave the way for the adoption of a unified policy in the fight against evasion and smuggling. In addition, at the start of the merging process, both institutions were politically, financially and managerially autonomous, something that contributed to the performance of their institutional goals.

Nonetheless, the Customs Office was having problems with revenue sustainability, which undermined its operating levels. Its revenues were going down steadily due to a constant reduction of tariff rights, a trend that would be accentuated in a context where the economic policy of Peru promoted the liberalization of its internal markets and its full integration with the globalized world. In the case of expenses, the

item “staff expenses” came to account for 90% of the budget, which added to the revenue reduction, led to a restriction of expenses in goods and supplies.

In this context, several factors influenced the governmental decision to merge the Internal Tax and Customs administrations. Among them were:

- The **modernization process undergone by the Peruvian State**, under which the new public management should be aimed at providing citizen services, improving rendered services, increasing productivity of State’s resources, avoiding duplicity or overlapping of competences, functions and powers between sectors and entities.
- The **substantial consistency** between functions, powers and the organizational structure of Customs and SUNAT, which facilitated management and administration in one single integrated institution.
- **The quest for economies of scale and a more efficient use of human, financial and technical resources**, and increased operating and administrative knowledge.
- The **expansion of the tax base**, through one single tax authority apt to strengthen joint supervision actions, the fight against evasion as well as smuggling prevention and suppression;
- An improved **Customs management**.

The decision to merge SUNAT with the Customs Office built largely on the international experience in this field, particularly on the predominant trends of developed and emerging countries. This allowed us to apply the best international practices, thus facilitating the integration process. However, it should be pointed out that the merging process led by SUNAT, unlike other similar experiences, did not have the financial and technical support of the international bodies.

3.2. Key Actions

The merging process between the Internal Tax and the Customs administrations has conveyed the implementation of a series of actions, which could be summarized as follows.

Merger planning

A High Level Commission was formed composed of the executives of both institutions with a view to planning and directing the merging process. This Commission prepared a situational diagnosis of both

entities prior to the merger and identified strengths, opportunities, weaknesses and threats (SWOT analysis) in the new SUNAT.

At the beginning of the merging process, the Strategic Plan³ of the new SUNAT was led by the then National Superintendent, Dr. Beatriz Merino Lucero. The implementation of the Plan was the joint work of the High Executive Committee, the National and Regional Intendants, the Customs Intendants and the multidisciplinary teams of the diverse areas involved.

The merging process adopted a synergic scheme; in other words, it pursued the incorporation of the Customs' strengths and best practices into the experience and good practices of SUNAT. In that sense, three primary objectives were pursued, among others:

- a) Improve the efficiency of tax and customs systems and processes
- b) Reduce costs to improve cost management
- c) Improve and increase taxpayer and foreign trade operator services

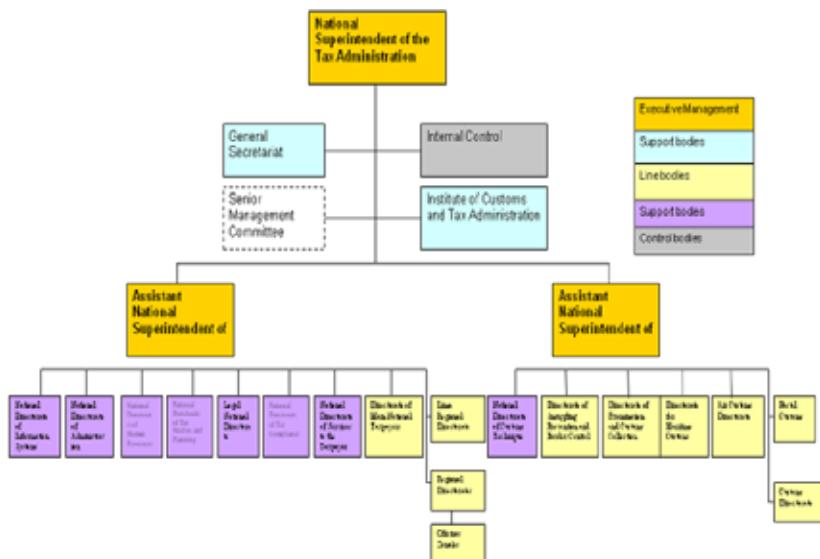
Building on the international experience, during the merger planning, a decision was made to begin the process with a first stage that would consolidate common support areas (HR, financial, logistics, IT, training and legal affairs), to then move on to a second stage during which the operating processes of tax collection, debt collection and supervision would be integrated.

Another key aspect considered during this initial period of merger planning concerned the importance assigned to the engagement of both institutions' staff in the process, so that the staff would internalize the expected benefits. Also, priority was given to a fair appreciation of the different organizational cultures of the integrated institutions. Both aspects played a decisive role in the acceptance of the internal restructuring process applied in the initial phase of the merger.

Change in the organizational structure

The merger strategy required a new organizational structure for SUNAT, which was approved in October 2002 and came into force from January 1, 2003.

³ *Organizational tool that allows targeting the Institution's approach to the strategic objectives, as well as transforming policies into concrete actions and goals.*



In this new organizational chart, which is substantially maintained until today, one can appreciate the integration of the functions of support areas, such as: human resources, finance, logistics, information technology, training and legal affairs. Nevertheless, the functions of the operating units of Internal Taxes and Customs have not been yet integrated in terms of the organizational structure, although coordinated work has been performed in practice. Each of these units continues to report to its respective Assistant National Superintendent.

Like the institutions that comprised it, the merged entity has political, financial and managerial autonomy, but is at all times governed by the jurisdiction of the Ministry of Economy and Finance.

Technological change

In the technological field the following key actions were carried out:

Business process systems

- Integration of the institutional web portal: www.sunat.gob.pe
- Implementation of the tax or customs reporting system at SUNAT's web portal.
- Adaptation of the accreditation system, which incorporates foreign trade revenues into the internal tax reconciliation process.

- Utilization of the information from the Internal Tax areas to define the Frequent Importer Directory, whose main benefit is that the valuation-based control is postponed to a subsequent control.
- Integration of real-time information and telephony systems to provide improved taxpayer and foreign trade user services: *Call Center*.
- Integration of SUNAT's systems with the Foreign Trade Single Window system (VUCE, in Spanish), using Web 2.0. technology.
- Integration with the Integrated System of on-line services, 2.0. version, used by SUNAT, RENIEC, SUNARP, ONGEI⁴ and Accountants Associations, with the use of web services technology.
- Internet on-line refund system.

Support process systems

- Introduction of the Document Management System (SIGED, in Spanish) as the single application for internal electronic document management, replacing the Document Electronic Form (FEDI Aduanero, in Spanish).
- Implementation of the human resource, logistics, financial, accounting and Internal Tax budget system as the single system for the merged institution.
- Standardization of system development methodologies, attaining one single methodology for the analysis, design and development of systems.

Technological infrastructure integration

- Standardization of IT equipment in both units: computers, notebooks, videoconference, printers, etc.
- Centralization of the database of Maritime and Air customs into one Computing Center (located in the district of Miraflores, in the country's capital city).
- Implementation of the Customs Extranet.
- Integration of the telephony service.
- Integration of Lima-based branches: the Customs branch located in Chucuito (Constitutional Province of El Callao) was integrated to the existing IP voice telephony that interconnects the branches located in Wilson (downtown Lima), San Isidro and Miraflores.
- Implementation of satellite technology connectivity services in Customs checkpoints and Internal Taxes.

⁴ *RENIEC: National Registry of Civil Identification and Status. SUNARP: National Superintendency of Public Registries. ONGEI: National Office of E-Government and Information Technology.*

Additionally, SUNAT's Senior Executives decided to continue with the Quality Management System in the customs service, so they created the Quality Executive Committee and the Quality Technical Secretariat intended to direct, supervise, assess and develop the migration and implantation process of the Quality Management System under ISO 9001, 2000 version.

Infrastructure and Acquisitions

Upon evaluating the needs of infrastructure, maintenance and equipment on a national level, new vehicular units were acquired targeted at the customs business. On the other hand, some administrative procedures have been standardized through the modification of the Annual Plan of Acquisitions and Contracts, the Selection Process and the Electronic Purchase Procedure.

Human Resources and Training

Within the frame of the merging process, a Human Resource Intendancy was created, which has been in charge of running the systems of staff management, staff selection, evaluation, welfare and worker's integral development, in an attempt to simplify processes and avoiding duplicity. For example, this intendancy implemented workshops on Teamwork and Leadership, which brought together personnel from both businesses.

As for training, the Institute of Tax Administration (IAT, in Spanish), an academic body of the former SUNAT, became the Institute of Tax and Customs Administration (IATA, in Spanish), and took on the role of educating, training and specializing the personnel of both businesses; developing and providing training courses on tax and customs matters addressed to the public at large; and carrying out research on tax and customs matters.

Operating processes

While progress in the integration of the operating areas has been slow, several joint actions have been implemented in practice. Hence, there is a notable advancement in the following aspects:

- The unification of the Single Text of Administrative Procedures (TUPA, in Spanish), which integrates the procedures of the Customs and Internal Tax offices in a single document.
- The execution of joint actions between the Intendancy of Smuggling Prevention and Border Control, the Customs

Intendancies and Regional Internal Tax Intendancies, with a view to reinforcing and leveraging control over the traffic of goods, transportation means and individuals.

- The automation and management of the risk allocation system for Customs declarations, which incorporates information on Internal Taxes and reference limits based upon which customs declarations should be assigned to red channel (physical recognition).

As far as examination issues are concerned, after a pilot stage of research and execution of joint examination actions between the Internal Tax and the Customs offices, conducted by a multifunctional team of professionals from both businesses, an Operating Team of Coordinated Examination was created on May 19 of 2004. However, the team's functions terminated in 2008.

As for debt collection functions, integrated work has been attempted in some dependencies. For example, in 2006's last quarter a merging pilot test was carried out of the coactive collection operating process at the dependencies of Cuzco and Salaverry, which provided information on the work modality of the collection teams at Customs and Internal Taxes. Also, the Unified System of Coactive Collection was approved, applicable to recover debt of internal and customs taxes.

3.3. Difficulties Encountered in the Process Consolidation

The merging process presented some difficulties that we had to address both technically and creatively. One of them was the specialized knowledge characteristic of each business' professional, an aspect that has been overcome through cross-training provided by the IATA; i.e., the Customs' staff was trained on Internal Tax matters, and vice versa.

Also in connection with the preceding issue, another difficulty was the dispersion of the staff of both businesses throughout the national territory, given the Peruvian highly diversified geography. This has been overcome through Distance Courses (e-learning).

Another difficulty consisted in the resistance to change, which was initially addressed by means of Integrated Workshops, joint sports activities, among other initiatives. The difficulties in terms of different organizational cultures were evident, for instance, in the fact that while Customs' professionals privileged foreign trade user services and their facilitation, Internal Taxes focused their actions and professional interest on taxpayer control and supervision. The solution to this

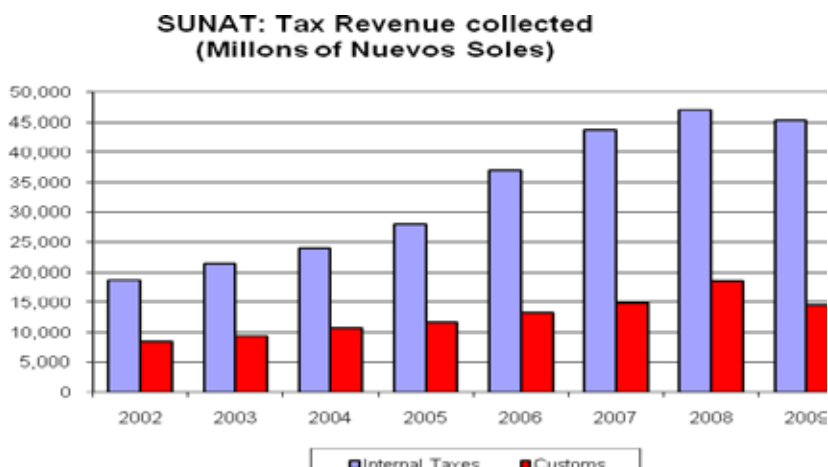
apparent contradiction has been an intensive use of technology and cross-education provided to our professionals, which has progressively allowed an effective combination of control and service tasks in both businesses.

4. STRENGTHS AND WEAKNESSES

An objective and conservative evaluation of the progress made so far in SUNAT's merging process should include what we may qualify preliminarily as strengths, opportunities, weaknesses and threats in the current process. We will address these aspects briefly below.

4.1. Strengths and Opportunities

- The merger has resulted in **cost savings for the State and economies of scale**, mainly because of the integration of support areas and the improved management of remuneration and acquisition-related expenses.
- Progress has been made in the **integration of the infrastructure** of businesses, thereby improving physical conditions in a standardized fashion and attaining greater storage coverage.
- The **budget intended to finance customs projects** has been expanded, facilitated by an increased collection of both Customs and Internal Taxes over the last years, excluding 2009, which was impacted negatively by the international financial crisis.

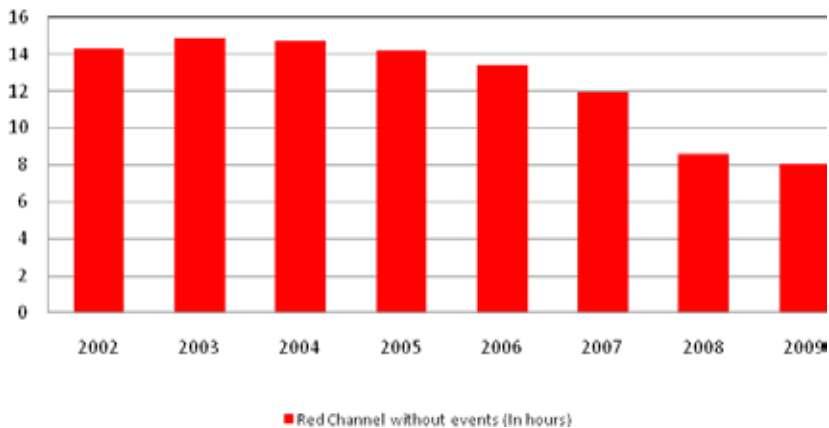


Source: SUNAT

Prepared by us.

- Staff joint **training** has been growing steadily, allowing a better reciprocal understanding of both businesses and reducing the gap between the organizational cultures of both businesses, thereby fostering a better work environment and organizational climate, favoring the merged institution's objectives.
- The merging process has **reduced compliance costs** of taxpayers and foreign trade users as a result of the simplification of diligences and procedures, and the use of technology targeted at exporters and importers. This can be observed, for example, in the reduction of dispatch time with no red channel incidences since 2003⁵, which allows importers to cut down storage costs.

SUNAT: Duration times of import dispatch service



Source: SUNAT- 2006 and 2009 Annual Reports
Prepared by us

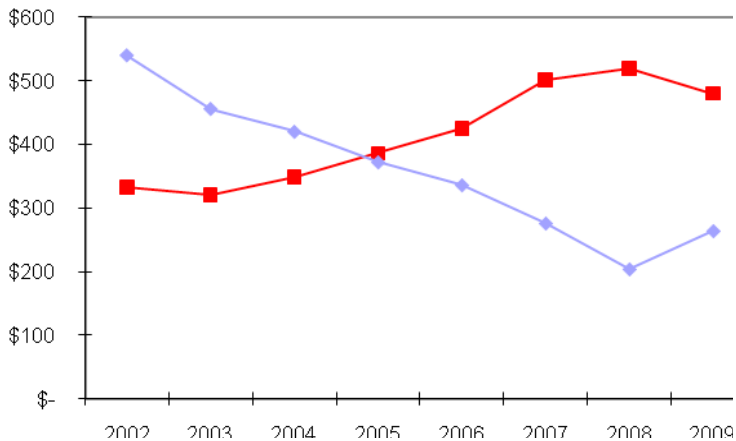
- The merger has favored the development and increase of **joint supervision actions** in respect of audit and control of possession, ownership and transportation of merchandise that is intended for smuggling, undercount, undervaluation and tax evasion.
- The **technological innovation**, using information of both Customs and Internal Taxes, has allowed outperforming the evaluation, investigation, analysis and selection capabilities of any other selection methods. Hence, SUNAT was the first tax and customs

⁵ Year in which SUNAT is instructed to begin operating as a new merged entity.

administration in Latin America to use neuronal networks to fight undervaluation and smuggling in foreign trade operations.

- **Evasion modalities** have been detected which affect both businesses, such as, e.g., importers who undervalue their imported goods and subsequently omit to register the sale of such products in the national market, either by undervaluing sales prices or omitting their registration.
- Since 2002, import-related **smuggling** has decreased steadily, except in 2009, an atypical year given that the international crisis caused a 26% contraction in the country's imports.

SUNAT: Smuggling in el Perú



Source: SUNAT
Prepared by us

- The merger is an **opportunity to reinforce the customs operation with the engagement of the Internal Taxes staff, and vice versa**, as in the case of concurrent controls in bridges, airports and borders, customs valuation and tariff classification, all typical foreign trade processes.

Today, when exporters request the restitution of tariff rights, a mechanism known as “drawback”, there is a procedure in place to seize the refunds in the event that the petitioner has any enforceable debts with Internal Taxes. Upon verification of an enforceable debt,

the coercive officer of Internal Taxes receives an alert, the seizure operates and is recorded in the institution's Intranet.

4.2. Weaknesses and Threats

- **Slow integration of common business processes**, such as audits, collections, coercive collection, mass operations, taxpayer assistance and guidance.

In the collection areas, both Internal Taxes and Customs work with their taxpayer directories separately, without considering whether taxpayers have any debts with either business. In Internal Taxes, collection is performed under the fiscal domicile criterion, based on approved directories, with the result that a debtor can only be indebted in the territorial office to which they belong under the Single Taxpayer Registry (RUC, in Spanish). Whereas in Customs, pursuant to the General Customs Act and its Regulations, collection begins at the Intendancy where the debt originates; i.e., where the individual or corporate carried out the taxable event. In this way, it is possible for a same debtor to maintain debt in different Customs intendancies according to the place where they have performed the customs system, operation or diligence.

As for supervision tasks, despite the progress made so far resulting from coordinated actions on audit levels, the supervision of Internal Taxes and Customs follows independent processes. There has not yet been sufficient progress in the exploitation of strengths of both businesses' supervision processes in order to supplement efforts in the fight against evasion, tax and customs fraud.

However, it should be noted that as part of SUNAT's objectives to improve services, an update has just been completed of the first version of the "macro-process map" of SUNAT, a starting point that will be followed by the analysis of the integration of some key processes, such as the programming of cases for supervision, tax collection, debt collection and supervision, among others.

- **No physical integration of intendancies in the country's interior.** This prevents optimizing the allocation of resources by the Tax Administration, for there are Customs Intendancies and Regional Intendancies and Internal Tax Zone Offices in one same department.

While there are currently approved projects for the construction of branches under the modality of one-stop branches integrating both businesses in some regions of the country⁶, the approval of a more explicit and integral policy is still pending. On this regard, the construction project of the SUNAT's new headquarters in Lima will integrate in one single place the regulatory areas of both internal taxes and customs businesses, thereby facilitating joint planning of control and collection actions of both businesses.

- **Weak integration of IT systems and platforms**, hindering the consolidation of process integration.

Here we should make reference to an ambitious project of the Tax Administration that is currently in the planning stage, called "Integrated Debt Management System", aimed at integrating debt collection, determination and follow-up processes, application of penalties, and fractioning and coercive collection of both businesses, which involves not only the construction of a single IT platform but also the creation of single procedures that may allow to optimize the process, transfer human resources to other areas and consolidate the merger. This is a core process for the Tax Administration, as are tax collection and debt collection processes.

- Slow progress in the **integration of the two organizational cultures**, one which emphasizes the facilitation of foreign trade and the other one which focuses on the control of tax obligation performance.
- **Absence of unified rules and procedures** to control tax and customs obligations. The operating staff **has no powers to address tax evasion and smuggling simultaneously**.
- While there are **unified databases containing information on Internal Taxes and Customs**, there is still some resistance to share information due to fears for the security of such information and inflexible procedures and access permits. The inability of officers at Internal Taxes and Customs to access certain databases directly, required for investigation and supervision purposes, restricts decision-making possibilities in SUNAT's diverse processes.

⁶ We refer here to the projects that will merge the Regional Intendancy of Loreto with the Customs Intendancy of Iquitos; the Customs Intendancy of Pucallpa with the Zone Office of Ucayali and the Customs Intendancy of Tarapoto with the Zone Office of San Martin.

- As a result of **new SUNAT's staff** having practically duplicated, the Government's decisions on remuneration rises have been postponed for several years, affecting negatively the organizational morale of the merged entity.
- **The possibility that the separation of the merged entity be managed politically constitutes a threat**, given the likeability that SUNAT, as a new control entity of tax obligation performance, may be perceived as decelerating foreign trade facilitation processes.

5. CONCLUSIONS

Although the decision to move forward to a new public sector organizational model – like a merger, as is the case of SUNAT – is primarily of a political rather than administrative nature, its consequences and the way to carry it out affect primarily the latter aspect. In the case of the merging process that SUNAT has been undergoing since 2002, its viability in the long run will depend on adequate fiscal and tax policies, clear legal regulations, but also on officers' efficiency and effectiveness to comply with and implement their assigned functions.

The merger that SUNAT started in 2002 should be understood as a process, and as such, it presents advantages and accomplishments, as well as disadvantages and delays. However, an objective analysis thereof shows us a rather positive balance, whose consolidation will rely on the decision and actions adopted in the short and medium term in order to address the challenges imposed by the process.

Among such **challenges** are: **leveraging joint supervision actions**, with a view to increasing the risk of foreign trade operators who defraud customs duties and evade internal taxes; **integrating the information of Customs and Internal Taxes**, as a basic element to apply joint procedures intended to assure the effective control of tax and customs obligations. This should not neglect the insistence on the **integration of the organizational cultures** that characterize each merged business.

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THE MERGER OF INTERNAL TAXES AND CUSTOMS DUTIES: LESSONS LEARNED AND TO BE LEARNED

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Contents: Executive summary.- 1. Background.- 2. Political context of the process.- 3. Description of the process.- 4. Reasons that originated the merger of DIN and DAN.- 5. Current status.- 6. Lessons learned.- 7. Lessons to be learned.- 8. Conclusions and recommendations

EXECUTIVE SUMMARY

The opening and internationalization of the Colombian economy made it essential for such entities as the Directorate of National Taxes - DNT and the National Customs Directorate - NCD, to adapt to the new foreign policy requirements promoted by the government of Virgilio Barco (1986-1990), accelerated and strengthened by the government of President César Gaviria (1990-1994).

Some of the factors that contributed to the institutional adjustments were the examples of some countries like Argentina, Brazil and Mexico where the administrations of internal and external taxes were merged, on considering that the mission of the entities was essentially the same and that the only difference was the source of their revenues.

Since 1992, DIAN has undergone six organizational reforms and has been headed by ten (10) Directors. Nevertheless, the responsibilities, competencies and functions have not changed substantially; on the contrary, it has been assigned new responsibilities within the framework of its mission.

The political conditions clearly and resolutely allowed for achieving the merger, whose immediate results generated the logical traumatism of the process which derived in the integration into a single body, of three spheres of complementary but at the same time complex responsibility:

internal taxes and customs duties with the functions of the Exchange Superintendency.

Throughout these 18 years, the entity has not experienced in-depth transformations of its competencies; but rather there have been adjustments to its internal organization, which has prevented the achievement of results during this time. The experiences are the subject of this paper and the conclusions will show that it is necessary to reconsider DIAN, with a radically different context and concept, in order to achieve dramatic and positive changes of the entity responsible for rendering operational a significant part of the Colombian tax policy.

1. BACKGROUND

In 1993, as a result of the 1991 Political Constitution, one of the stages of greatest controversy of the country's Tax and Customs Administration was begun. First of all, prior to the administrative merger of customs duties and internal taxes, there was a radical transformation of customs regulations, inspired by the economic opening, reduction of tariffs and simplification of customs administration. According to some experts, Customs was subjected to a process of taxation, with the incorporation of figures common to the administration of internal taxes that had been successful to date and provided adequate organizational and technical development to the DIN and allowed for a considerable increase in collection.

The two merged entities were in different stages of administrative development and in spite of the efforts made by their directors, the results were harshly debated by the productive sector, due to the increase in contraband and unfair competition.

The productive sectors had differing opinions and in 1996 and 1997 they insistently requested the total separation of the institution.

The DIAN directors had repeatedly expressed the inconvenience of total separation, inasmuch as in spite of the criticism many achievements that had been consolidated or which were in process would be thwarted by the separation process.

Perhaps the greatest success in recent years was to keep the DIAN united, specialize its functions and by means of a careful plan for fighting contraband, and institutional positioning, along with the contribution of the productive sectors, put an end to the criticisms by the associations.

To evaluate the results of DIAN's operations, it is necessary to be aware of the reasons that justified its creation as well as the circumstances wherein it has worked: Some of these are:

- The opening and internationalization of the Colombian economy (1990-1994), called for the incorporation of a legislative and organizational change that would be adapted to foreign trade needs.
- As prior step to the merger of the National Directorate of Taxes and Customs and the Control and Exchange Superintendency, the General Customs Directorate was restructured for the purpose of converting it into an active institution that would facilitate commercial flow, considering as main objectives, the simplification of processes and of the control procedures, thereby changing the customs scheme.
- On the other hand, the Colombian government (1994-1998) although it insisted on the need to continue and strengthen the opening policy, considered that in order to develop this guideline, it would be necessary to initially correct the distortions of the process and eliminate the less desired effects. It also posed the need to strengthen DIAN's control capacity, since it had become evident that the latter had increased as a result of the application of the new customs scheme, together with massive consumption of imported goods and the laundering of money originating from illegal activities.
- The urgent need for tax resources derived from the institutional reforms provided in the Political Constitution of 1991 and the vertiginous increase of the transfer of resources toward territorial entities resulted in the concentration of DIAN's resources in the control and collection of taxes, rather than in customs functions.
- In view of the foregoing circumstances, the DIAN made a tremendous effort for promptly overcoming the difficulties common to the merger and thus showed the behavior of the main indicators that evidenced its compliance; namely: collection and examination.

a. 1986 Tax Reform

The tax administration experiences its greatest structural and organizational change by means of the special powers granted to the government by Laws 75 of 1986 and 43 of 1987 to restructure and organized the tax regulations, which are provided in Decree 624 of March 30, 1989 or the Tax Statute, as well as in Decrees that determine the administrative structure of the DIRECTORATE OF NATIONAL TAXES.

The regulations issued include significant changes in the substantial as well as procedural aspects of the national taxes, as well as in the modernization of its organizational concept, which changes its functions of tax collector and processor of legal control administrative acts, to enter into a dynamic scheme as executor of the tax actions, with clear powers for the assessment, discussion and collection of taxes.

On the other hand, it allowed the use of such tools as: application of sanctions that become more cumbersome as the tax administration exercises its examination action, where taxpayer noncompliance with formal obligations is sanctioned as an administrative and not legal violation, where there is simplification of processes and elimination of costly procedures that generated administrative difficulties and obstacles in the commercial transactions of individuals.

All this modernization called for a period of evolution and consolidation that involved in-depth transformations in the conceptualization of productive factors, mainly in the management of the Entity, technological modernization, communications and human development management.

Significant transformations took place in the management of human talent, with a renewal of the staff, their professionalization, generation of a contracting system with clear policies and consistent objectives, courses-contests, open contests, closed contests, promotions by means of contests.

b. 1991 Reform

In the purely administrative and procedural aspects, the 1991 Reform introduced substantial changes to the management of the Entity. The structure itself underwent an in-depth change from a Directorate dependent on the Ministry of Finance and Public Credit to a Special Administrative Unit adhered thereto, with administrative, budgetary autonomy and a special contracting system which facilitated the rationalization of the staff and the creation of the Tax Support Directorate, where the great majority of officials transferred from the former Directorate of Taxes were assigned.

c. The 1991 customs reform

Based on the powers given to the Executive Body by the Congress of the Republic, in Law 49 of 1990, with a view to modernizing and

introducing technology in the Customs Administration, the government introduced some regulations, among them, Decree 1644 of 1991, which established the structure and determined the functions of the General Directorate of Customs of the Ministry of Finance and Public Credit; Decree 1750 of 1991, whereby special powers are exercised in relation to customs penal issues, which are particularly aimed at curbing contraband, which was previously a punishable act provided in the Customs Penal Statute but which, as of November 1st, 1991, became an administrative violation.

d. The Tax Reform, Law 6 of 1992

This reform deals with substantial aspects of income and complementary, sales taxes, national stamps and some aspects relative to the tax procedure.

In the customs area, the General Directorate of Customs was changed into a Special Administrative Unit adhered to the Ministry of Finance and Public Credit, under the name of Directorate of National Customs.

The Customs Revolving Fund was eliminated, regulations regarding customs investigation were issued and it was determined that evidence in investigations of the Directorate of Customs may be valid for the Tax Directorate and viceversa.

2. POLITICAL CONTEXT OF THE PROCESS

Few government entities were so profoundly subjected to the modernization processes as the Directorate of Taxes and Customs. On the one hand, the entity had already covered a long stretch of the path toward modernization, which allowed it to assimilate this phenomenon faster and more efficiently. On the other hand, the economy's internationalization process put on the foreground the institutions that had to do with international trade, including the complex effects which the reduction of tariffs would have on tax revenues, as important step in the process of consolidation of such economic blocks as the Andean Pact and the G - 3. Within such framework the tax administration had to be readjusted, to recover through increased internal taxes, the revenues lost as a result of the reduction originated in foreign trade taxes.

The closed, protectionist, centralist and interventionist model in Colombia was used throughout a greater part of its recent history. Under its protection, several transformations were undertaken which allowed certain progress in the country's development; however, the

new international dynamics evidenced many limitations of the model to face new situations at the economic, political and social levels. In the past decades, State management has assumed modernization as a means for competing under equal conditions, with other markets of the world and thus arrive at substantial achievements for improving the quality of life of its citizens.

However, the technical, financial and managerial structure of the economy evidenced that the State was lagging behind for assuming competition in advantageous conditions for the national capital. Contributing to this situation was the deterioration and obsolescence of the technical and physical conditions of land and railway means of communication, while the ports and air transportation offered a similar aspect of inefficiency and high costs. These facts, along with the monopolistic conditions of the companies in charge of transportation, have contributed to weaken the internationalization conditions of the Colombian Economy.

Additionally, many areas in the national territory did not count on the actual presence of the State, thereby allowing other political players to fill said gap, thus becoming zones of conflict, such as, for example: Magdalena Medio and Urabá Antioqueño.

The two-party monopoly in the political sphere, closed the possibilities of the community's participation in the decisions dealing with the citizens. One such example deals with the appointment of mayors and governors, who were designated and removed and removed by entities outside the territory and to whom the decisions of the presidents caused no effect.

In the administrative area, functions and decisions were excessively concentrated at the central level, thereby disintegrating investment, since a significant part thereof was advantageously used by the centralist bureaucracy.

In relation to taxation, in the late 80s, the central government kept 84% of the resources, the departments kept 10% and the municipalities, barely 6%, thus preventing the territorial entities from executing investment plans in keeping with their problems.

The foregoing internal conditions, together with changes occurring in the rest of the hemisphere, at the end of the Cold War, the disintegration of the U.S.S.R., the economic transformation of the Asian countries and, above all, the adjustment plans imposed by transnational and

multilateral banking to recover bad debts, made the country undertake the opening and internationalization of the economy, the modernization of its institutions and the redefinition of the role of the State.

3. DESCRIPTION OF THE PROCESS

The process for opening and internationalizing the economy calls for supports at the macroeconomic as well as microeconomic levels, directly involving entrepreneurs in a joint consolidation effort. To deal with relative success the new conditions of international trade and to be able to compete in the international markets under acceptable conditions, has led to introducing orthodox models in the areas of exchange, foreign trade, customs, tax, financial and road infrastructure.

Changes in the areas of tax, exchange, customs and foreign trade began with the modification of the customs regime, through the development of Law 6 of 1992, its 1909 regulatory Decree of 1992 and other resolutions and complementary regulations.

The most important changes that appeared in the new customs system, aimed at achieving efficiency, speediness and avoiding corruption in the sector, could be summarized as follows:

- Through agreement between DIAN and the entire network of Banks and financial institutions, it was possible to file the import return in any of said entities.
- Import duties and other corresponding taxes would be handled thereafter through the system of self-assessment by the importer or whoever acts in his stead.
- Procedures involving the verification and acceptance of import returns were eliminated.
- The warehouses authorized by DIAN are the ones in charge of transcribing the import return data directly to the system.
- The importer or filer keeps the documents that back the return for a specific period.
- The goods confiscated, seized or declared abandoned, were passed on to be handled under the responsibility of the deposit warehouses and under the control of DIAN, (elimination of the Customs Revolving Fund).
- The process of valuation of goods, became selective through a systems module.
- For purposes of assessment of foreign trade taxes, the representative rate that was daily, became weekly.
- Examination criteria were changed, placing greater emphasis and strengthening the subsequent control or examination system.

With respect to foreign trade, a review was made of the legislation, which allowed for stimulating, integrating and speeding up the import and export processes, through new tariff and fiscal policies and a new exchange system; transactions were speeded up, without disregarding the exchange control.

In the area of taxation, the system was readapted in order to render the tax administration efficient and achieve the stabilization of collection with equity, justice and transparency criteria.

Lastly, regarding the necessary infrastructure for the opening, work was undertaken in the modernization and readaptation of the country's maritime ports and terminals, by privatizing them and creating open skies policies. It must be noted that with respect to the highway infrastructure, the process of adaptation to the opening conditions has been more than insufficient.

4. REASONS THAT ORIGINATED THE MERGER OF DIN AND DAN

The process for opening and internationalizing the Colombian economy, made it essential for entities such as the Directorate of National Taxes - DIN and the Directorate of National Customs - DAN, to be in tune with the new foreign policy requirements promoted by the government of Virgilio Barco (1986-1990), and accelerated and given greater importance by the government of President César Gaviria (1990-1994).

Some of the factors contributing to the introduction of institutional adjustments were: The examples of some countries like Argentina, Brazil and Mexico which undertook the merger of the administrations of internal and external taxes, on considering that the mission of the entities in essence was the same and that the only different was the source of their revenues.

The possibility of guaranteeing an integral control of taxes through examination actions, where the internal and external activities of the taxpayers would complement each other for purposes of a more efficient control, allowed for specifying integral action plans that involve the tax and customs obligations.

Tax evasion whose levels according to DIN estimates were close to 30%, accelerated the subsequent deterioration of public finances, rendered the system inefficient and inequitable, to the point that

taxpayers who were responsible with the payment of their taxes, had to contribute to a greater proportion due to evading taxpayers.

The little efficiency of the customs system had been conceived for a close economy, preventing the increase in fiscal revenues generated by foreign goods, with the use of seizure or confiscation almost as the essential objective of Customs and not the latter as a dynamizing and promoting mechanism of international trade.

5. CURRENT STATUS

Since 1992, DIAN has undergone six organizational reforms and there have been ten (10) Directors. However, the responsibilities, competencies and functions have not varied substantially; on the contrary, it has been assigned new responsibilities within the framework of its mission.

According to the regulations in force, the Directorate of National Taxes and Customs – DIAN-, is organized as a Special Administrative Unit of a national order, of an eminently technical and specialized nature, with legal personality, administrative and budgetary autonomy and net worth of its own, adhered to the Ministry of Finance and Public Credit.

- It has a special system of permanent staff management, nomenclature and classification, a specific administrative career system, applicable to its public servants, in accordance with the decrees issued on such subjects.
- The budgetary and contracting system of the -DIAN- is the one anticipated for public establishments at the national level.
- Given the fact that the DIAN is adhered to the Ministry of Finance and Public Credit, its objective must be fulfilled in accordance with the guidelines of tax policy indicated by the Ministry of Finance and Public Credit and framed within the macroeconomic program adopted by the competent authorities.
- The jurisdiction of the Entity comprises the national territory and its main domicile is the city of Bogotá D.C.

The four organizational reforms that have resolutely provided for the entity's management are summarized in the following chart.

BACKGROUND ON THE ORGANIC STRUCTURE			
FACTOR	DECREE 2117 OF 1992	DECREE 1693 OF 1997	DECREE 1071 OF 1999
Name	S.A.U. Directorate of National Taxes and Customs	S.A.U. Directorate of National Taxes and Customs	S.A.U. Directorate of National Taxes and Customs
Legal Nature	It is a Special Administrative Unit, formed as a technical entity, adhered to the Ministry of Finance and Public Credit, which has special regimes in the area of nomenclature, classification, special administrative career, salaries, benefits, disciplinary regime, Budget and administrative hiring.	Functionally separate the Directorate of National Taxes and Customs, Specialized Administrative Unit, entity of a specialized technical nature, adhered to the Ministry of Finance and Public Credit. The Special Administrative Unit, Directorate of National Taxes and Customs has a special system of staff management, nomenclature, classification, administrative career system, salaries and benefits	The Special Administrative Unit, Directorate of National Taxes and Customs will be organized as a Special Administrative Unit at the national level, of an eminently technical and specialized nature, with juridical personality, administrative and budgetary autonomy and net worth of its own, adhered to the Ministry of Finance and Public Credit. The Special Administrative Unit, Directorate of National Taxes and Customs will be organized as a Special Administrative Unit at the national level, of an eminently technical and specialized nature, with juridical personality, administrative and budgetary autonomy and net worth of its own, adhered to the Ministry of Finance and Public Credit. The Special Administrative Unit, Directorate of National Taxes and Customs will be organized as a Special Administrative Unit at the national level, of an eminently technical and specialized nature, with juridical personality, administrative and budgetary autonomy and net worth of its own, adhered to the Ministry of Finance and Public Credit. The budgetary and contracting system of the Special Administrative Unit, Directorate of National Taxes and Customs –DIAN– is that provided for public establishments at the national level. The adherence to the Ministry of Finance and Public Credit requires that the purpose of the Special Administrative Unit, Directorate of National Taxes and Customs –DIAN– be fulfilled in accordance with tax policy guidelines determined by the Ministry of Finance and Public Credit and be framed within the macroeconomic program adopted by the pertinent authorities.

<p>Responsibility</p>	<p>It is responsible for the administration of the following taxes: income and complementary, national stamps and sales taxes, customs duties and other national taxes whose responsibility has not been assigned to other State entities, whether internal or foreign trade taxes; as well as the guidance and administration of customs management, including seizure, confiscation or abandonment in favor of the Government, of goods and their administration and disposal. Management of taxes comprises their collection, examination, assessment, discussion, enforced collection, refund and all other aspects related to compliance with tax and customs obligations. It must also act as doctrinal and statistical authority on tax and customs issues as well as territorial taxes. The Directorate of National Taxes and Customs will carry out all administrative actions and functions necessary for carrying out the functions under its responsibility.</p>	<p>is responsible for the following functions: The administration of income and complementary taxes, national stamps and sales taxes; customs duties and other national taxes whose responsibility has not been assigned to other State entities, whether internal or foreign trade taxes; as well as the guidance and administration of customs management, including seizure, confiscation or abandonment in favor of the Government its administration and disposal. It is also responsible for the control and surveillance of compliance with the exchange system, as regards the import and export of goods and services, expenses associated thereto, financing in foreign currency, of imports and exports, and under-invoicing or over-invoicing of these transactions. Tax management comprises their collection, examination, assessment, discussion, enforced collection, refund and all other aspects related to compliance with tax obligations. The guidance and administration of customs management comprises the service and support to foreign trade operations, the seizure, confiscation or abandonment of goods in favor of the Government, their administration, control and disposal.</p>	<p>Purpose: Contribute to guarantee tax security of the Colombian government and protection of the national, economic, public order, through administration and control of due compliance with tax, customs and exchange obligations and facilitation of foreign trade operations, in conditions of equity, transparency and legality. The administration of income and complementary taxes, national stamps and sales taxes, customs duties and other internal taxes of a national nature, whose responsibility has not been assigned to other Government entities, whether internal or foreign trade taxes, as well as the guidance and administration of customs management, including the seizure, confiscation or abandonment in favor of the Government of goods and their administration and disposal. It is also responsible for the control and surveillance of compliance with the exchange system, as regards the import and export of goods and services, expenses associated thereto, financing in foreign currency, of imports and exports, and under-invoicing or over-invoicing of these transactions. Tax management comprises their collection, examination, assessment, discussion, enforced collection, refund and all other aspects related to compliance with tax obligations. The administration of customs duties and other foreign trade taxes comprises their collection, examination, assessment, discussion, enforced collection and all other aspects related to compliance with customs obligations.</p>	<p>Purpose: Contribute to guarantee tax security of the Colombian government and protection of the national, economic, public order, through administration and control of due compliance with tax, customs and exchange obligations and facilitation of foreign trade operations, in conditions of equity, transparency and legality. The administration of income and complementary taxes, national stamps and sales taxes, customs duties and other internal taxes of a national nature, whose responsibility has not been assigned to other Government entities, whether internal or foreign trade taxes, as well as the guidance and administration of customs management, including the seizure, confiscation or abandonment in favor of the Government of goods and their administration and disposal. It is also responsible for the control and surveillance of compliance with the exchange system, as regards the import and export of goods and services, expenses associated thereto, financing in foreign currency, of imports and exports, and under-invoicing or over-invoicing of these transactions. Tax management comprises their collection, examination, assessment, discussion, enforced collection, refund and all other aspects related to compliance with tax obligations. The administration of customs duties and other foreign trade taxes comprises their collection, examination, assessment, discussion, enforced collection and all other aspects related to compliance with customs obligations.</p>
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		<p>It must also act as doctrinal and statistical authority on tax, customs and exchange control issues that are the responsibility of the Entity. The Directorate of National Taxes and Customs will carry out all the necessary administrative actions for complying with the functions under its responsibility.</p>	<p>The guidance and administration of customs management comprises the service and support to foreign trade operations, the seizure, confiscation or abandonment of goods in favor of the Government, their administration, control and disposal, as well as the administration and control of Special Import-Export Systems, Free Zones, Special Economic Export Zones and the International Trade Corporations, in accordance with the policy formulated by the Ministry of Commerce, Industry and Tourism on the subject, for the latter ones, except for the contracts related to the Free Zones. It must also act as doctrinal and statistical authority on tax, customs and exchange control issues in relation to matters under its responsibility, as well as those dealing with the Special Import-Export Systems, Free Zones, Special Export Economic Zones and the International Trading Corporations. The Directorate of National Taxes and Customs -DIAN- will be in charge of the administration of the rights of exploitation and administration expenses of the games of chance managed by public entities at the national level. <i>(Law 1393 of July 12, 2010)</i></p>	<p>The guidance and administration of customs management comprises the service and support to foreign trade operations, the seizure, confiscation or abandonment of goods in favor of the Government, their administration, control and disposal, as well as the administration and control of Special Import-Export Systems, Free Zones, Special Economic Export Zones and the International Trade Corporations, in accordance with the policy formulated by the Ministry of Commerce, Industry and Tourism on the subject, for the latter ones, except for the contracts related to the Free Zones. It must also act as doctrinal and statistical authority on tax, customs and exchange control issues in relation to matters under its responsibility, as well as those dealing with the Special Import-Export Systems, Free Zones, Special Export Economic Zones and the International Trading Corporations. The Directorate of National Taxes and Customs -DIAN- will be in charge of the administration of the rights of exploitation and administration expenses of the games of chance managed by public entities at the national level. <i>(Law 1393 of July 12, 2010)</i> The administration of these rights and expenses comprise their collection, examination, assessment, discussion, enforced collection, refund, sanction and all other aspects related to compliance with the obligations derived from the rights of exploitation and administration expenses. To that end, it may make use of all the powers provided in the Tax Statute, as well as exercise the functions of Judicial Police in accordance with the legal regulations in force. <i>(Law 1393 of July 12, 2010)</i></p>
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<p>Jurisdiction and domicile</p>	<p>Its jurisdiction comprises the national territory; its main domicile is the city of Santafé de Bogotá D.C., and it will represent the Nation for purposes of that provided in this decree.</p>	<p>Its jurisdiction comprises the national territory; its main domicile is the city of Santafé de Bogotá D.C., and it will represent the Nation for purposes of that provided in this decree and other regulations that may be added or may modify it.</p>	<p>The jurisdiction of the Special Administrative Unit Directorate of National Taxes and Customs comprises the national territory; its main domicile is the city of Santa Fe de Bogotá D.C.</p>	<p>The jurisdiction of the Special Administrative Unit Directorate of National Taxes and Customs comprises the national territory; its main domicile is the city of Santa Fe de Bogotá D.C.</p>
<p>Net Worth</p>	<p>The net worth of the entity consists of the properties that comprised the net worth of the U.A.E DIN and U.A.E DAN, those assigned to it in the future and the following economic resources:</p> <ol style="list-style-type: none"> 1. The allocations made in the general Budget of the nation to the Directorate of National Taxes and Customs. 2. The allocations which the budgetary regulations devote to the Management Fund. 3. The allocations which the budgetary regulations devote to the Fiscal Prize. 4. The resources and properties acquired or received in any capacity; and 5. The resources and properties received by way of donation or technical assistance. 	<p>The net worth of the entity consists of the properties comprising it, those that may be assigned in the future and the following economic resources:</p> <ol style="list-style-type: none"> 1. The allocations made in the general budget of the Nation to the Special Administrative Unit Directorate of National Taxes and Customs. 2. The allocations which the budgetary regulations devote to the Management Fund. 3. The allocations which the budgetary regulations devote to the Fiscal Prize. 4. The additional investment resources of the specific appropriation called Financing of Annual Anti-avoidance, provided in article 154 of Law 223 of 1995 and the specific resources for fighting against evasion and contraband which may be provided by other legal regulations; 5. The resources and properties acquired or received in any capacity, especially those originating from the rendering of its services by means of agreements entered into; and 6. The resources and properties received by way of donation or technical assistance. 	<p>The net worth of the entity will consist of the properties comprising the net worth of the Special Administrative Unit Directorate of National Taxes and Customs, and those it may acquire in any capacity or which may be subsequently assigned to it.</p> <p>CONTRIBUTIONS FROM THE GOVERNMENT:</p> <ol style="list-style-type: none"> 1.1. The contribution from the national Budget necessary for the operation and investment of the Entity. 2. INCOME OF ITS OWN: <ol style="list-style-type: none"> 2.1. The amounts, values or properties received from the sale or lease of property of its own and from services of any nature. 2.2. The resources and properties received by way of donation or technical assistance, national or international. 2.3. The resources originating from the rendering of special services. 	<p>The net worth of the Entity will consist of properties that comprise the net worth of the Special Administrative Unit Directorate of National Taxes and Customs and those it may acquire in any capacity or which may be subsequently assigned to it.</p> <p>Economic resources.</p> <p>The Special Administrative Unit Directorate of National Taxes and Customs DIAN, shall have the following economic resources:</p> <p>Contributions from the Government. Contribution from the National Budget necessary for the operation and investment of the entity.</p> <p>Rentas propias.</p> <p>The amounts, values or properties received from the sale or lease of property of its own and from services of any nature.</p> <p>The resources and properties received by way of donation or technical assistance, national or international.</p> <p>The resources originating from the rendering of special services.</p> <p>Special services, among others, are those of: factually provided or at the request of the filer, for the receipt of the means of transportation, examination of the goods or delivery thereof, on nonworking days or hours, or special customs surveillance, or when such procedures must be carried outside the official premises or warehouses. The cost resulting from such services must be paid by the filer or interested party, according to the applicable regulations or rates.</p>

Administrative levels	Directorate or Central Level. Regional Administrations of National Taxes and Customs. National Administrations of Taxes and Customs. Delegated Administrations of National Taxes and Customs	Directorate or Central Level. Regional Directorates, Special Administrations of National Taxes and Special Customs. Local Administrations. Delegated Administrations	Directorate or Central Level. Regional Directorates, Special Administrations of National Taxes and Special Administrations of National Customs. Local Administrations. Delegated Administrations	Directorate or Central Level. Sectional Directorates or Local Level Delegated Sectional Directorates or Delegated Level
Entity to which it is adhered	Ministry of Finance and Public Credit			

A few months after the merger of the Directorates of Taxes, Customs and Superintendency of Exchange Control into the new Directorate of National Taxes and Customs –DIAN-, several sectors started criticizing the new entity for its apparent inability to stop contraband.

Decree 1909 of November 27, 1992, partially amended the customs legislation with respect to imports, with a view to adapting the internal economy to the new realities of internationalization. A significant part of procedures in the import process were eliminated and taxpayers were encouraged to comply with their obligations based on good faith, celerity, cost reduction, efficiency and effectiveness.

Following five years of merger DIAN continued to be criticized, especially because of its inability to curb contraband. For some, one of the reasons was the application of "legislation for angels" based on the good faith of the users and controls were rendered so flexible that they made the new provisions invalid. Added to the application of a new customs legislation and the flexibility of controls, was the impact produced by the merger which traumatized the entities involved, particularly the former Customs which had experienced a recent and drastic restructuring process.

Also added to this situation is the money laundering phenomenon derived from drug trafficking. For this reason, there was a need for a strong Customs that would efficiently interact with other entities for controlling contraband (and more globally, drug trafficking) and guarantee an organizational structure in keeping with said requirements. It is thus that several sectors proposed the need to separate the two entities and undertake the strengthening and consolidation of a new Customs.

Criticisms to DIAN reached a point where it was believed that only the split would solve the problems. Different players expressed their opinion on the subject, even in the Congress it was posed as part of the Tax Reform and again the sanctioning of contraband and imprisonment of evaders were again discussed. These issues were not approved, but they were left pending discussion at future legislatures.

During the presidential campaign at that time, both candidates referred to DIAN's situation. Candidate Andrés Pastrana posed the need for the division, while Ernesto Samper was in favor of strengthening it. Samper himself, when he was Minister of Development during the past administration, had expressed his preference for having Customs under the control of another ministry, the recently created Ministry of Foreign Trade or Economic Development.

The control of exchanges is distributed among three entities, thus rendering difficult the surveillance task. DIAN is charged with the surveillance of foreign trade operations, the Superintendency of Corporations controls foreign investment; while the Financial Superintendency controls the transactions of the financial sector.

6. LESSONS LEARNED

The organizational evolution scheme of –DIAN–, may be precisely or progressively seen in each of the following three blocks:

a. Merger

This was the first step whose immediate results generated the logical traumatism of the process, which resulted in the integration in a single organism, of the three spheres of responsibility which, as was already mentioned, given the context, are complementary but at the same time complex: internal taxes, customs, with the functions of the Exchange Superintendency.

This exercise was based on the idea of identifying common functions of a transversal or horizontal nature, as regards the processes and responsibilities of the new entity. Common processes are identified, such as those relative to collection, juridical resources and control.

As a result, dependencies are established, devoted to such aspects as Collection, Recovery, Examination, Juridical. The area relative to customs management of service and technical studies is considered a uncommon area and is materialized in dependencies such as Foreign Trade and Customs Technique.

Although the entity has been subjected to internal organizational reforms, these responsibilities, regardless of the way they are organized (areas, dependencies, Deputy Directorates or Directorates) have kept clear their role and the results expected.

It may then be stated that the inconvenience derived in terms of the merger, based on this approach dealt more with the resources allocated than the understanding of its nuclear and highly technical responsibilities, with which the management results of the entity, throughout the 18 years have been satisfactory and in most cases exceeding the established goals.

b. Integration of the Information Systems

Work was carried out in the integration of the existing information systems, which were in a diversity of languages and platforms, given that they provided specific response to needs of the dependencies and not of logical, sequential and coherent processes that were inherited from each of the merged entities.

The establishment of a single information system with common and integrated data bases was sought. However, work was continued with the idea of two different entities.

The Customs and Tax Information System (CTIS), was initially set up with Minicomputers in the administrations with the greater volume of information, with regional data bases and a great central data base that consolidates the country's information, boxes to store the information that was being received, batch programs that kept the data bases updated, applications in character mode, fourth generation design and programming tools. The design was originally developed for responding to the tax management needs and has been adjusted, to the extent possible, to customs management requirements.

Many applications were redesigned, but the way they were integrated to the CTIS continued the same. This design does not fulfill the requirements of cooperation between applications. The profile of a customs taxpayer or user is obtained by entering multiple information systems and is consolidated outside of the data bases and applications by the internal users.

In 2002, the entity decided to solve the problems arising from varied platforms, local and disarticulated applications, high maintenance costs, deficient operational maintenance capacity, among others, through the adoption of a management model integrating and articulating the totality of processes, information, technology and organization, through the Single Automated Revenue, Service and Control Model –(MUISCA – Spanish acronym).

The model is intended to generate a single system that may provide complete and timely information for decisionmaking. In a complementary manner, it facilitates the entity's transactions with external and internal users and allows for better response times in the operation, greater levels of reliability and control, as well as integration and automation of the processes.

c. Administrative Integration

This may be considered a common integration, to the extent that these are dependencies which, although they existed in the merged entities, they carried out the same activities in each of them.

This allowed for counting on a common staff policy, inasmuch as they are governed by universal regulations of the Colombian State on public function, as regards the processes of selection, training, filling of positions. The same is applicable to administrative aspects dealing with budgetary resources, acquisitions and accounting management.

As a result there are dependencies devoted to Commercialization, Financial, Administrative, Computerized Services, Human Management, Education and Internal Control aspects.

According to the conditions of the entity, the process began with a strong shock in the merger of their dependencies, without making the gradual required transition so that the new entity could accommodate itself in the most objective manner.

The integration in the support and staff areas should have been the previous step in the integration of the information systems, to then operate as a single body. Of course, this implies a total time lapse for the process of at least eight years (a subsequent study carried out by the entity showed that an organizational adjustment or reform takes the entity 8 years to accommodate itself to the new situation) plus a considerable investment of resources.

Additionally, it may be said that this proposal could have turned out to be less traumatic, would show progress and results within short term and would allow for projecting resources toward the future.

7. LESSONS TO BE LEARNED

Since DIAN is a government entity, part of the country's Economic System, a determining factor in the latter's functionality as producer of welfare for society, important part in the creation of equity and opportunities for all members of society; in economic competency as front line executing element in the regulation of economic activities, it is worthwhile to undertake a process of innovation, transformation and adaptation to safeguard its own survival and that of the systems of which it is part.

DIAN's main problem is that it responds to a government policy, does not participate; accordingly, it is fully executing entity and the core of criticisms is based on the management of the economic and fiscal policy, whose philosophy and conception originates from the State or, in its absence, from the government.

The entity should promote and strengthen the application of taxes that may distort at least as possible, the decisions of the economic agents, or else, in those where there are negative externalities, taxes that may be aimed at correcting them.. Should there be an entity devoted to the analysis, evaluation and management of the tax policy at the national level in perfect coordination with the regional tax policies and other State policies?

To the extent taxpayers perceive that the tax system is fair, it will be more widely accepted, which is vital for voluntary compliance. Although the entity may be conceived as an executing entity at the decentralized level of the public administration, it will be necessary to change this paradigm, to give it a connotation of greater study, analysis and orientation in the definition of policies in question, always counting with the support of the higher levels, such as: the Fiscal Policy Superior Council –CONFIS, National Council of Economic and Social Policy –CONPES-, National Planning Department –DNP- and Ministry of Finance and Public Credit.

According, should DIAN be reconsidered so that it may be a more independent and autonomous state entity? Should it be a sort of government attorney's office or accusing system, where the final discussion may take place at a different level? Has DIAN become judge and jury at the same time? Should efforts be made to strengthen an entity that is permanently analyzing and evaluating the amendments to laws and decrees that regulate tax, customs and exchange issues, their impact on institutional performance and on the State's Finances that may allow for consolidating analytical and well documented proposals to link them to the tax reforms?

Shortly after the initiation of the merger process, in the language common to the entity, reference was made to a third macroprocess, the exchange process. However, the mission activities and the identity of DIAN show two microprocesses, that of tax and customs control and of service. IN the functional separation, it acquired another dimension on becoming the Deputy Directorate of Exchange Control, dependent on the Customs Directorate. In the most recent reform, it maintains its same condition, although dependent on the Directorate

of Examination. Since this Deputy Directorate is in charge of managing financial control in imports or exports and the expenses related thereto and additionally has a residual function; that is, it assumes the functions on individuals subject to control that are not supervised by the Financial and Corporation Superintendencies, the question arises as where this activity should finally be.

With respect to the goods commercialization activity, the latter does not belong to taxes or customs. However, on generating revenues for the country, support is being given to the national Budget. Formerly, the commercialization activity was carried out by an independent entity; namely: the Customs Revolving Fund, but by means of Decree 1909/92 it was transferred to DIAN. The same question arises as to where should this activity finally be..

Although the entity has experienced a change toward service, it has been focused on solving problems that affect taxpayers and users, especially in promoting and encouraging voluntary compliance with tax, customs and exchange obligations which should be at the core of institutional management, seeking a balance between the taxpayer education, orientation, assistance and service activities and those dealing with massive presence and risk generation formal control programs. Nevertheless, it does not yet count on strong operational capacity that may allow it to focus on preventing problems prior to their occurrence; that is, assuming a more timely risk and follow up scheme and with better capacity for institutional reaction.

In this same regard, a recurrent complaint of taxpayers and users is aimed at the burdensome and delayed procedures carried out before the entity. Although it is true that certain governmental provisions have promoted the elimination of procedures within the Government, it is worth asking whether enough has been done in the reduction of procedures that may facilitate the interaction with users and taxpayers. How can these contribute to reduce physical content? How do these measures contribute to reduce transaction costs to the taxpayer and user?

There is a structural problem in accounting management that has led to carry forward balances in time, which do not reflect the real financial situation of public revenues under the responsibility of the entity. The issue at stake is to ask whether DIAN should be held accountable for the revenues, or whether this responsibility should be transferred to its natural owner; namely: the General Directorate of the Treasury and Public Credit of the Ministry of Finance?

Frequent changes in managerial staff, which on some occasions may lead to changes in policies, become an obstacle for achieving the institutional objectives of the entity and its sustained development. As we saw before, in 18 years of merger, there have been 10 General Directors. It is logical to think that this practice generates a marked trend toward the short term, since Directors are pressured to quickly show results. To this one may add that the entity's goals are linked to the annual fiscal period. The evident reflection is how can the Government avoid this type of problems to an eminently technical entity?

Staff rotation, of course, is not an exclusive issue of the managerial level. The career staff also experiences this inconvenience, for which reason knowledge, experience and training are frequently lost. To this it must be added, that the entry of new staff has been stagnant for years and even though 1,127 officials have been recently appointed, the average age is close to fifty years, for which reason a generational renewal is not visualized. How can the entity face a process of renewal and develop succession plans?

On occasions, the normative system assigns the entity responsibilities which, if not in agreement with its institutional mission or operational capacity it does not consult them. Such is the recent case of the Territorial Health Entity –ETESA-, which is being eliminated and whose responsibilities, at the national level, had been assigned to DIAN. The question is: Does DIAN require a new profile and new responsibilities? Does it count on the political, budgetary and technical viability to assume new responsibilities? What is the impact of undertaking new transformations?

After looking at the entity from a very broad perspective, there are other reflections to be considered by the Government and society: What types of actions are promoted by the entity to generate the social commitment to pay taxes? How can society develop a sense of belonging with respect to the Tax System? Which expanding mechanisms are available to the Government for disseminating the need to pay taxes?

8. CONCLUSIONS AND RECOMMENDATIONS

What are the implications of these experiences for the entity and for the country? Based on the criticisms to the process of merger and recent experiences with the restructuring of DIAN it is appropriate to ask: Where should DIAN be located within the Government's structure?

The system within which DIAN performs consists, at a first level, of the Public system; at the second level, the Government, of which the entity is a part as coordination and control instrument.

In the Government, the Policy is formulated by the following players: The Congress of the Republic, the Bank of the Republic, the Presidency of the Republic, the Ministry of Finance and Public Credit, CONFIS and CONPES, among others.

Intelligence is under DNP, Presidency of the Republic, Bank of the Republic, Ministry of Finance and Public Credit.

Control is carried out by the General Comptrollership of the Republic, Ministry of Finance, DIAN, Departments and Municipalities.

DIAN has clearly understood what it must do to move forward and locate itself as model for public management. First of all, it has considered the new concept and philosophy of action in the light of the new trends which in public management and governability, guide the action of the Tax and Customs Administration for promoting and favoring voluntary compliance and seeking acceptance of taxation by society.

The consolidation of the institutional vision is framed within the need to ensure a viable State that may respond to ever more demanding requirements of society and the need to develop a social and economic environment that may guarantee conditions of equity and transparency, with a view to consolidating the State's economic governability

The DIAN required by the State is an entity that should transform itself in the coming years, in an organization with simple, speedy processes supported by computer technology which, in addition to automation, may ensure the operational control of the processes and, accordingly, appropriate decisionmaking. This effort calls for a necessary adaptation of the profiles and responsibilities of the persons carrying out the working processes. For this reason, efforts in said sense are aimed at improving the mechanisms of selection, development, remuneration and configuration of an organizational environment that may encourage the best and allow for the development of those requiring greater strengthening, always working on the professional and personal spheres.

It should also be an entity carrying out tasks involving research and development of techniques in various fields of institutional activity, so

as to guarantee that creative minds may make the adequate questions for developing ideas and implementing them.

Said entity should consider as its basic goal the simplification of procedures, reduction in response times, lowering of costs, avoid regulating absolutely everything that the entity does, emphasize the concepts of public management, induce change processes and ultimately, generate an attitude of service and respect for the taxpayers, users and officials, developing trust between taxpayers and users and creating a culture in the Colombian society of formalization of the economic players.

It should also be an entity that establishes the rights of taxpayers and users and makes them fully aware of their rights and duties so that they may duly interact with it. It also determines the actions to be displayed as guarantee thereof and as feedback element of institutional management.

Such entity should also guarantee unity of criteria, updating of regulations according to the permanent changes of the environment wherein it acts and the technology it handles.

Likewise, it should be an entity aimed at seeking new sources of resources, whether financial or in-kind, as a way to contribute to ease off the State's budgetary burden and to attribute greater importance and sustainability to the activities carried out by DIAN.

An entity that promotes the employees' performance, not only from the salary or monetary standpoint, but which also focuses itself on a clear definition of improvement of labor competencies, adequate labor stability and training aimed at greater productivity of jobs.

An entity that promotes succession plans among its employees, in such a way as to improve the potential for personal, professional and institutional development, with the firm intention of creating prosperous futures for the employee, DIAN and the country.

An entity that may facilitate the commercial processes of goods exchange in the global economy, wherein the group of economic players demand speediness, swiftness, security and low operational costs.

An entity that may generate, reliable, timely and easily accessible information for the State, economic players and citizens in general, for carrying out its business and commercial activity, opening to the

maximum extent possible its sources of information, strengthening the strategy proposed in the connectivity agenda, in order to bring the administration directly to the citizen, eliminating possible sources or means of intermediation.

An entity that endeavors to achieve the establishment of an intelligent network of information crosschecks, that may allow for a closer follow up in the development of economic agents and with it, a better structuring of programs, not only involving control, but also support to its economic activity, through coordination and consensus among the different government sectors that govern the economic activity, multilateral organizations and private entities.

An entity whose structure may respond to these challenges and support the management model, especially as regards, its necessary simplification, reduction of levels, improvement in control brackets, interaction with third parties in key aspects of its activity, clear identification of seasonalities that may allow it to develop working modalities through temporary professional services by individuals or corporations and ensure adequate decentralization and operational strengthening.

THE MERGER OF INTERNAL TAXES AND CUSTOMS DUTIES: LESSONS LEARNED AND TO BE LEARNED

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Contents: 1. Origin of the customs office in Mexico.- 2. Evolution of the customs offices in modern times.- 3. How do we operate?.- 4. Current approaches.- 5. Customs modernization plan.6. Conclusions

1. ORIGIN OF THE CUSTOMS OFFICE IN MEXICO

The General Directorate of Customs, which consists of six sections, was established through Presidential Decree on February 19, 1900.

The Internal Regulations of the General Directorate of Customs and the Internal Regulations of the Secretariat of Finance were issued on November 18, 1931. Article 3 provided for locating the Customs Directorate within the General Services Offices, whose functions were to administer, coordinate and control customs taxes, duties and profits.

On May 23, 1977, new Internal Regulations were issued for the Secretariat of Finance and Public Credit, and the Secretariat consisted of the Undersecretariats of Finance and Public Credit, Revenues, Tax Examination, to which the General Directorate of Customs was adhered, the Administrative Office, the Government Attorney's Office of the Federation and the Treasury of the Federation.

In 1989, the General Directorate of Customs was adhered to the Undersecretariat of Revenues, following amendment of the Internal Regulations of the Secretariat of Finance and Public Credit.

The Internal Regulations of the Secretariat of Finance and Public Credit were published on January 25, 1993; the name of the General Directorate of Customs was changed to General Customs

Administration and 45 customs offices were established throughout the country.

The Tax Administration Service (SAT) was created on July 1st, 1997 and the General Customs Administration was placed thereunder.

2. EVOLUTION OF THE CUSTOMS OFFICES IN MODERN TIMES

Protectionism in 1990:

- * Manual customs and collection operation
- * Physical files maintained by customs
- * 100% inspection of goods
- * Limited infrastructure

Opening of markets from 1990 to 1997:

- * Regulatory changes
- * Entry into force of the NAFTA
- * Agreement on double taxation treaties
- * New Customs Law 96
- * Limited budget for modernizing the systems

Reactive Modernization from 1997 to 2006:

- * Commercial treaties with over 30 countries
- * Automation of the risk analysis system

- * Sectorial lists
- * Customs investigation area
- * Updating of SAAI

Proactive Modernization from 2006 to date:

- * Facilitate trade exchange
- * Strengthen control mechanisms through risk management
- * Increase Security
- * Strengthen Human Capital
- * Technological modernization

Main Objectives

Modernize the customs system

Integrate processes that may allow for strengthening the service, with infrastructure for improving the facilities and the introduction of state-of-the-art technology for competing at the world level.

Fight contraband

Through optimal detection and solution of irregularities, on applying stricter control in the customs system, supported with national and international collaboration.

Render transparent and improve the image of the customs service

Through continuous professional development of the staff and the dissemination of processes to offer the user an integral service.

3. HOW DO WE OPERATE?

Customs are administrative public offices established at the borders, coasts and most important cities, with powers to examine, supervise and control goods entering and leaving, as well as their means of transportation.

Ensure compliance with the provisions issued regarding foreign trade.

Ensure compliance with applicable laws and those related to its activity, such as national security, economics, health, communications, migration, phytosanitary, among others.

Collect taxes, benefits, and other duties related to foreign trade.

Customs Offices of the Mexican Republic



Statistics to 2009

Foreign Trade and GDP

Tax	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	"Cagr"
VAT	6,714.50	7,075.37	7,572.98	8,694.15	10,663.22	11,629.22	13,708.10	15,015.92	16,774.74	14,776.84	9.20%
IGI	2,626.79	2,290.97	2,168.09	2,067.90	2,295.47	2,070.48	2,452.16	2,452.46	2,677.91	2,332.61	-1.30%
OTHERS	339.72	356.23	450.97	533.51	511.94	389.79	442.90	422.69	456.17	467.47	3.61%
TOTAL	9,681.02	9,722.57	10,192.03	11,295.57	13,470.63	14,089.50	16,603.17	17,891.07	19,908.82	17,576.93	6.90%

Figures in Millions of USD
Note: "Cagr" Composite Annual Growth Rate

- * VAT collection on foreign trade is approximately 45% of total VAT revenues
- * The value of Mexico's foreign trade operations represents 61% of GDP
- * Mexico has a 3,152 kms. border with the United States

Statistics to 2009
Foreign Trade Operations

Total	11,704,793
Daily Average	37396

Daily Persons/Passengers

Border crossings (entries and departures)	1.02 million *
Arrivals at airports	32, 915 *

Daily Goods

Average value	1,271 million USD
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Reference: ACPA, ACOA Single Report

** Estimated Figures*

4. CURRENT APPROACHES
International
Political

- International cooperation.
- Proliferation of regional trade agreements.
- Numerous, complex and binding rules.

Economic

- High growth of international trade and electronic commerce.
- Vision to promote international prosperity.
- More complex trade transactions.
- High world competitiveness in port operating costs.
- Operational saturation at North American ports that promote Mexico as port of entry.

Security

- Increased commercial fraud and problems with industrial copyright.
- Globalization of criminal networks, terrorist outrages.
- Need to reinforce security

National

Political

- Basis of economic growth.
- Combat illegality and corruption.
- Increasing pressures toward simplification vs. increased control.

Economic

- Country with largest number of commercial treaties.
- Protectionism which causes market distortions and promotes contraband.
- Growth at rates well above GDP growth.

Security

- Very extended culture of illegality in society.
- Concern regarding issues dealing with public health, environment and security.

5. CUSTOMS MODERNIZATION PLAN

Lines of action

Increase competitiveness

- Facilitation
- Operation
- Infrastructure

Increase voluntary compliance

- Intelligence
- Technology

Strengthen human capital

- Foreign Trade Officers Program
- Selection by profiles and strict trust controls
- Previous training and permanent development
- Development of an integral customs career

Increase security in customs facilities

- Collaboration with other dependencies from the Federal Government, local and foreign governments.
- Confinement of facilities

6. CONCLUSIONS

From the year 2000 to this date

Some modifications were made; mainly in the handling, storage and custody of foreign trade goods, the entry or sending of goods by mail; customs examination of goods; customs valuation; guarantee of contributions for the goods in transit system, administrative procedures and customs violations, among others.

Following the opening of foreign trade in the past decade, it was necessary that the customs service be provided wherever the commercial demand requires it and for which purpose contact was established with the industrial chambers to learn about the import and export needs of the productive plant. The Integral Automated Customs System (IACS) and the Automated Selection System in inspections, which we know as fiscal light, were established to facilitate control operations. The responsibility for classifying, determining the customs value and the origin of goods was delegated to customs agents, with the authority being only empowered to verify compliance with this obligation, and thus reduce the customs employees' use of discretion.

High technology equipment has been installed throughout the areas and for all procedures carried out, in such a way that the computerized network is updated permanently and may be used at the national level with automated reports on the customs activity. On the other hand, control systems (videos, valuations and X-rays) are being continuously renewed.

As for facilitation in international passengers rooms, the fiscal light was substituted with a mechanism that automatically determines whether or not it is appropriate to check the baggage, thereby improving the detection of undeclared goods. The redesign of the customs area has allowed for speeding up the inspection of passengers.

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

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Contents: 1. Introductions.- 2. Organisation.- 3. New workflows: other functions of public finance.- 4. Benefits.- 5. Levy of employee insurance contributions.- 6. Pre-completed tax return.- 7. The decision-making process – a brief analysis

1. INTRODUCTION

The subject of this contribution is “the merger of the administration of internal taxes with other functions of public finance: justification and viability”.

Section 2 describes the Tax and Customs Administration’s current organisational structure. Sections 4 through 6, which serve as a background to the verbal presentation in Paris, contain a summary of the three major changes in the Tax and Customs Administration’s work package during the past five years. This also includes a brief review of the relevant decision-making and implementation processes. Section 7 concludes with an analysis of the decision-making processes.

2. ORGANISATION

The more than 30,000 staff of the Netherlands Tax and Customs Administration is responsible for a wide range of duties. The best-known of these is the levying and collection of taxes and contributions. Every year the Tax and Customs Administration processes the various tax returns submitted by 6 million private individuals and 1.1 million entrepreneurs.

The Tax and Customs Administration not only collects, but also pays out funds. For example, the Tax and Customs Administration pays provisional tax credits and benefits households can receive towards the costs of childcare, rent and healthcare.

Other important work processes include:

- The investigation of fraud
- The supervision of the import, export and transit of goods
- The supervision of compliance with tax legislation and regulations

The Dutch Tax and Customs Administration is part of the Ministry of Finance. The Tax and Customs Administration's organisational structure is as follows:

- Tax and Customs Administration Director-General & Management Team
- Tax and Customs Administration Directorate-General (12 teams)
- 13 tax districts
- Customs (1 national office and 9 customs districts)
- [Central Office](#)
- [Fiscal Information and Investigation Service/Economic Investigation Service \(FIOD\)](#)
- National Benefits Office
- Tax Information Line
- Centre for Professional Development and Communication
- Facilities Service Centre
- Centre for ICT, comprised of:
 - Centre for applications development and maintenance
 - Centre for infrastructure and operations

A 14th district was added to Tax and Customs Administration on 10 October 2010, the Tax and Customs Administration/Bonaire, St. Eustatius and Saba, B/BES. The 14 tax districts will be managed by general manager, tax districts. A national office is now being set up.

An organogram is enclosed in an annex.

3. NEW WORKFLOWS: OTHER FUNCTIONS OF PUBLIC FINANCE

During recent years the legislator has regularly called on the Tax and Customs Administration to take up new workflows or to reorganise existing work processes. For example, on 1 January 2005 the

Tax and Customs Administration was assigned the responsibility for the implementation of income-dependent schemes and, on 1 January 2006, the responsibility for levying the employee insurance contributions. The Tax and Customs Administration introduced the new pre-completed tax return on 1 January 2008.

These new workflows are explained in the following sections, together with a review of the decision-making and implementation processes and a number of highlights of each programme.

4. BENEFITS

4.1 Introduction

The Tax and Customs Administration has been responsible for the implementation of income-dependent schemes – benefits – since 2005. These benefits are allowances that households can receive towards the costs of childcare, rent and healthcare. The benefits were introduced in phases. Persons who come into consideration for an allowance can submit an application to the Tax and Customs Administration/Benefits. More than 6 million households currently receive a benefit.

The reasons for the assignment of the responsibility for the payment of benefits to the Tax and Customs Administration are outlined below.

4.2 Preparatory study

Income-dependent schemes were introduced in the Netherlands many decades ago: the government, on the basis of the distribution of poverty and a caring society, makes a contribution to the cost of specific expenses incurred by households. Each of these schemes was implemented by an administration agency affiliated with the ministry responsible for the regulations governing the subsidy. As a result, the regulations, procedures and the specification of the means test all exhibited differences. Some time ago consideration was being given to a new subsidy for health insurance, when an inter-ministerial working party formed to review these plans also tested the implementation variants against the following criteria:

1. Rightfulness: the achievement of the regulations' objective and the minimisation of misuse, improper use and fraud
2. Customer-orientation: transparency of the regulations and implementation, the organisation of the process and the accessibility for citizens

3. Efficiency: the lowest possible implementation costs and administrative burden.

The inter-ministerial policy group also concluded that merging the implementation of income-dependent schemes without further harmonisation would result in little or no efficiency gains.

4.3 Political decision-making

The results from this study were in part the reason for the government's decision both to set up *one* counter for as many income-dependent schemes as possible and to harmonise the conceptual framework and procedures to the maximum possible extent. This achieves improvements including a more transparent and customer-oriented approach. The Tax and Customs Administration has experience with bulk processes and determines the taxpayer's income, which in turn determines whether a subsidy will be awarded. For this reason the government decided to entrust the implementation of healthcare, housing and childcare schemes to an agency affiliated with the Tax and Customs Administration.

This decision laid the foundations of Tax and Customs Administration/Benefits. However, the transfer of existing schemes to the Tax and Customs Administration did *not* imply that the schemes would be changed: the substance remained unchanged. Nor did the implementation by an agency affiliated with the Tax and Customs Administration imply that the schemes concerned would be transformed into tax instruments. In addition, the ministries responsible for the schemes continued to bear the policy responsibility for the substance of the relevant schemes. As a result, the transfer extended solely to the implementation and the responsibility for the implementation.

However, the diversity of the schemes was such that merging the implementation without further harmonisation would, at best, result in only extremely limited efficiency gains. For this reason the government also decided to streamline and harmonise the schemes. This was achieved by the introduction of a separate legal framework (the General Income-Linked Regulations Act) laying down a generally applicable conceptual framework. The administrative procedures, such as the application procedures, were also harmonised to the maximum possible extent.

4.4 The Tax and Customs Administration' role in the decision-making process

The decision to form an implementation agency affiliated with the Tax and Customs Administration was a political decision and *not* an administrative decision. However, and self-evidently, it is extremely important that the decision-making processes offer implementation agencies an opportunity to submit advice on proposed legislation and regulations. Legislative processes are always preceded by an analysis of the consequences of proposed measures for the implementation. The consequences for the implementation include the:

- practicability
- enforceability
- IT consequences
- planning/periods of time
- implementation costs
- consequences for citizens

The recommendations play a role in the political decision-making.

4.5 The implementation programme in a nutshell

The formation of Tax and Customs Administration/Benefits was characterised by political pressure and the acquisition of new experiences during the implementation of new workflows/processes. The Tax and Customs Administration is, by its very nature, an organisation that levies and collects taxes: however, a new division of the organisation would now be formed to carry out the opposite – the payment of subsidies.

The Tax and Customs Administration prepared for its new duties by appointing a general project manager and setting up a project team to prepare for the introduction of the subsidy-payment activities. An introduction plan was drawn up on the basis of the Netherlands' customary COPAFIJTH-BI¹ criteria.

A new automation system

One of the characteristics of this introduction programme was the great political pressure.

¹ *COPAFIJTH-BI is the abbreviation of the Dutch for Communication, Organisation, Personnel, Administration, Finance, Information, Legal, Technology, Accommodation and Administrative Information*

This resulted in the decision to begin work on the construction of an automation system in as early as 2003: although it had already become clear that the Tax and Customs Administration would pay these benefits, the political decision-making process had not been completed. Waiting until the political decision-making process had been completed would have drastically reduced the probability of a timely delivery.

A new group of clients

Many citizens who come into consideration for a benefit have not had previous contacts with the Tax and Custom Administration. For this reason it was decided to introduce a simple process based on the use of pre-completed data. In addition, a multimedia campaign was launched to draw attention to the benefit application procedures.

Campaigns of this nature are always tested by a users group prior to the launch.

A new form of cooperation with external partners

The Tax and Customs Administration cooperated with a number of external service providers to inform and support applicants seeking a benefit, including municipalities, trade unions, senior citizens associations, insurers and major public housing corporations, as well as with a number of parties that automatically transmit data to Tax and Custom Administration/Benefits.

A new organisational division with new staff

To provide maximum convenience to citizens the implementation of all benefit schemes was entrusted to one organisational division within the Tax and Custom Administration.

This was a major operation which also involved the transfer of more than 450 staff to the new division from the Tax and Custom Administration and the implementation agencies that had previously administered the schemes.

5. LEVY OF EMPLOYEE INSURANCE CONTRIBUTIONS

5.1 Introduction

As from 1 January 2006 the Tax and Customs Administration, in addition to levying and collecting payroll tax and national insurance contributions,

also levies and collects employee insurance contributions. Employers now only need to submit just *one* electronic payroll tax return. They use this return to give notification of the deduction of payroll tax, national insurance contributions and employee insurance contributions. The payment of benefits pursuant to the employee insurances has not been transferred to the Tax and Customs Administration: this responsibility is retained by the Employee Insurance Agency (UWV).

5.2 Political decision-making

The operation in which the levy of employee insurance contributions was transferred from the UWV to the Tax and Customs Administration is compatible with the government's efforts to reduce the administrative burden and increase the efficiency of the authorities.

This operation was initiated on the basis of the coalition agreement of the then government.

5.3 Preparatory study

The UWV used to levy employee insurance contributions. At the time employees had to submit and pay returns to both the UWV and the Tax and Customs Administration (for example, for payroll tax). The merger of these levy and collection processes resulted in a substantial reduction of the burden imposed on employers. One of the elements of the merger was the harmonisation of the (different) wage conceptual frameworks. The merger was anything but an easy operation. The Tax and Customs Administration and UWV worked closely together on the project and submitted joint implementation recommendations to the House of Representatives of the States-General.

The preparations included a test of the feasibility and practicability.

5.4 The Tax and Customs Administration' role in the decision-making process

The decision to transfer the workflow to the Tax and Customs Administration was primarily a political rather than an administrative decision. However, and self-evidently, it is extremely important that the decision-making processes offer implementation agencies an opportunity to submit advice on proposed legislation and regulations. Legislative processes are always preceded by an analysis of the consequences of proposed measures for the implementation. The two implementation agencies worked together closely on this operation and submitted analyses, proposals and progress reports to the politicians.

These extended to issues including:

- Organisation of the administration of the employee insurance policies
- Consequences for employers and employees
- IT issues
- Integration of work processes
- Transfer of staff to the Tax and Customs Administration
- Communication
- Supervision

The recommendations played a role in the political decision-making. The Tax and Customs Administration and UWV issued joint recommendations on a phased introduction of the programme that were subsequently adopted.

5.5 The implementation programme in a nutshell

The organisation of the levy of employee insurance contributions by the Tax and Customs Administration was characterised by close cooperation between the relevant implementation agencies.

The Tax and Customs Administration prepared for its new duties by appointing a general project manager and setting up a project team to prepare for the introduction of the subsidy-payment activities. An introduction plan was drawn up on the basis of the Netherlands' customary COPAFIJTH-BIcriteria.

Close cooperation between the benefits agency and the levying agency

The UWV administers the employee insurances and is the contact point for employees. This administration agency is responsible for the administration of the policies. The information submitted in the employers' returns serves as input. Following the transfer the Tax and Customs Administration serves as the employers' contact point. Two important elements of the introduction programme were the creation of an exchange portal and explicit agreements between the two implementation agencies on their procedures. A number of UWV staff also moved to the Tax and Customs Administration.

A new return

A new electronic return was developed in 2006. Employers submit the payroll tax returns via a portal developed specifically for the purpose

(a form of electronic post office). The first electronic payroll tax returns were submitted in January 2006.

Intensive cooperation

The introduction of the new payroll tax return resulted in a major administrative revolution: not just for the Tax and Customs Administration, but also for the software developers, accountants and accounting firms – and, last but not least, for the target group of employers and others responsible for deductions at source. The introduction of the new payroll tax return resulted in many extra consultations and a great deal of work for all parties involved. These contacts were not restricted to the preparatory phase: they also extended into the implementation phase in 2006, when intensive contacts were maintained with market parties such as employers, accounting firms, salary agencies, software developers and accountants. These constructive consultations enabled the Tax and Customs Administration to solve the startup problems in a relatively rapid and effective manner.

6. PRE-COMPLETED TAX RETURN

6.1 Introduction

The Tax and Customs Administration began work on the development of a pre-completed tax return several years ago. The pre-completed tax return was made available to everyone at the beginning of 2009. New pre-completed sections are added every year.

The ultimate target group for the pre-completed tax return extends to all private individuals and entrepreneurs (non-profit).

6.2 Political decision-making

The Tax and Customs Administration developed the pre-completed tax return within the context of the compliance strategy focused on the introduction of horizontal supervision.

This is being given shape by measures including the conclusion of individual and collective compliance agreements with large businesses and the small and medium-sized business sector. The pre-completed tax return, which is intended for private individuals, is compatible with the government's policy of minimising the administrative burden on citizens and businesses. The policy stipulates a target of a 25% reduction of the administrative burden imposed on citizens and businesses. The policy is based on the principle that taxpayers should

need to submit information to the authorities just once. The authorities then ensure that all government agencies use the data.

6.3 Preparatory study

The Tax and Customs Administration carried out a preparatory study to review the feasibility and practicality of the pre-completed tax return. This preparatory study examined issues including the following:

- Selection of the sections of the tax return to be pre-completed
- Feasibility of the disclosure flows
- Quality of the disclosure flows
- Organisation of the data management
- IT consequences
- Consequences for the income tax return and levying process
- Consequences for the division of responsibilities between citizens and the authorities
- Requirements imposed on legislation and the preconditions

6.4 The Tax and Customs Administration' role in the decision-making process

The Tax and Customs Administration took the initiative for the introduction of the pre-completed tax return and managed the introduction. The results from the preliminary studies resulted in the decision to introduce the pre-completed tax return in phases.

Proposals were also submitted for the necessary amendments to the legislation. Pilot trials were carried out during the preparations for the introduction in which staff of the Employee Insurance Agency and the Tax and Customs Administration were offered an opportunity to take part in a test. The results from these trials were used to carry out a large-scale trial with the entire taxpayer database in 2009. Both trials were evaluated in depth and the results were used to make improvements to the process. New sections are pre-completed every year. By as early as 2010, 40% of all persons required to submit a tax return were making use of returns that had been pre-completed for them.

6.5 The implementation programme in a nutshell

Collecting data from data sources

Some of the pre-completed data originate from the Tax and Customs Administration and some from other agencies: the wage data originates

from the Employee Insurance Agency, the value of owner-occupied homes from the municipalities and information about bank balances from the banks. All data must have been received by 1 February, and the data must be analysed within 1 month. Data that comply with the quality requirements and, consequently, are correct are entered in the pre-completed tax return. This is carried out by no later than 1 March. The taxpayers must submit the completed return by 1 April.

Gradual increase in the number of pre-completed data

The pre-completed data relate, for example, to the fiscal number, wage data, the value of the taxpayer's home and a number of tax credits. These are supplemented with new data every year. These expansions require agreements with data suppliers and time for the introduction of the new data delivery process. The Tax and Customs Administration also needs to organise a processing procedure and quality test. Trials are carried out on some data flows.

Test programmes

The introduction is being carried out in phases: a number of test programmes are also being carried out. These test programmes are necessary to gain experience, to identify points requiring improvement and implement the requisite improvements. The staff of the Tax and Customs Administration took part in a test programme prior to the introduction of the system. The staff of the Tax and Customs Administration are also taking part in a test of the pre-completion of bank data. Some bank staff are also taking part in the test. Staff taking part in the tests complete a questionnaire to give feedback on their experience.

Responsibility for the correctness of the tax return

Citizens completing pre-completed tax returns retain their responsibility for the correctness of the tax return. The Tax and Customs Administration helps them to do so, but does not assume the responsibility from them.

6.6 Preview of the future

In the future the Tax and Customs Administration will complete the entire income tax return for a continually increasing number of citizens. Achieving virtually fully pre-completed tax returns for private individuals will take many years, not only because the Tax and Customs Administration will need to reorganise its processes but also because

citizens will need to become accustomed to their new role and (new) data suppliers will need time to modify their records.

The quantity of pre-completed data also depends on the complexity of the relevant tax legislation: the feasibility of pre-completing a section of the return will probably decrease with the complexity of the relevant section.

When more tax returns can be fully pre-completed the inspector will be able to designate more returns as no-touch: citizens who have established that the pre-completed data are correct will need to take no further action. The Tax and Customs Administration will then determine the assessment on the basis of the pre-completed data.

A no-touch return will not be feasible for all taxpayers, for example when income components cannot be pre-completed and when taxpayers have too frequently failed to fulfil their obligation to submit a return. The submission of an (active) return will remain obligatory in these situations.

7. THE DECISION-MAKING PROCESS – A BRIEF ANALYSIS

The decision to assign new duties to a tax organisation is primarily a political decision.

This is evident from the benefits and levy of employee insurance contributions projects.

The political objectives that played a role in these decisions include:

- Reduction of the burden imposed on citizens and businesses
- Efficient government
- Deployment of the Tax and Customs Administration's bulk processes and data collection

Since the decision-making is a political process it would not be appropriate for the administrative organisation to comment on the justification or validity of the decision to entrust a (new) workflow to the Tax and Customs Administration. However, the Tax and Customs Administration is responsible for performing the duties assigned to the organisation in the appropriate manner.

The Tax and Customs Administration has learnt a great deal from the benefits and levy of employee insurance contributions projects, for example in the IT field, where the pressure is excessive. The

Tax and Customs Administration requested an external audit of the information provision chain. The results from this audit resulted in the decision to freeze technological innovations in this chain for a period of three years. In addition, priorities have been set. The first priority is the provision of assurances for the continuity: the services and the primary process may not be placed at risk. The second priority is the implementation of legislation: this is necessary, since the Tax and Customs Administration is responsible for the implementation of legislation. The third priority, in conclusion, is innovation.

The major projects and new workflows have also inspired us:

- to seek new and more intensive forms of cooperation with citizens, businesses, intermediaries and service providers;
- to achieve creativity in communications with new groups of clients;
- to introduce new forms of service;
- to strive for the efficient collection and use of data

As a result, these new duties play an individual role in the achievement of the Tax and Customs Administration's political and policy objectives: citizens and businesses are prepared to comply with their statutory obligations to the Tax and Customs Administration.

TOPIC 2

“KEY ASPECTS FOR THE IMPLEMENTATION OF A MERGER OF COMPETENCIES IN THE TAX ADMINISTRATIONS”

KEY ASPECTS IN IMPLEMENTING THE MERGER OF COMPETENCIES IN THE TAX ADMINISTRATIONS

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***Contents:** 1. Introduction.- 2. merger models from the perspective of internal taxes.- 3. Countries in the Americas.- 4. Organizational integration: single agency.- 5. Functional integration.- 6. Indirect advantages of integration.- 7. Risks of the integration.- 8. Challenges of tax administration unification, merger and incorporation processes.- 9. The greatest challenge: the implementation strategy.- 10. Action plan.- 11. Action plan (2).*

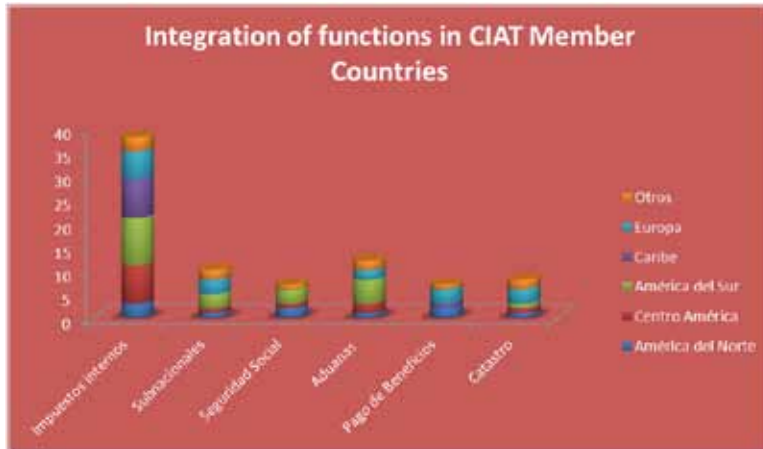
1. INTRODUCTION

- The Tax Policy in Latin American countries reflects their Tax Administrations;
- The tax systems are what the TAs may execute with their Human, Material, and Technological resources and with their Enforcement Powers and Autonomy under the legal framework in effect.
- Key Objectives of the TAs
- Voluntary Compliance: tax presence and social acceptance of taxes
- Latin American scenario
- Integration is not an objective per se and it is not the only objective

2. MERGER MODELS FROM THE PERSPECTIVE OF INTERNAL TAXES

- Internal Taxes;
- Internal Taxes + Customs;
- Internal Taxes + Social Security;
- Internal Taxes + Customs + Social Security;

- Previous options with or without Enforced Collection and Criminal Prosecution;
- Previous options and Non-Fiscal Functions, such as the payment of benefits, treasury and other non-tax services, such as tax education.



3. COUNTRIES IN THE AMERICAS

Internal Taxes, Customs and Social Security

Argentina, Brazil and Peru

- Internal Taxes and Customs
Argentina, Brazil, Colombia, Guatemala, Honduras, Mexico, Peru and Venezuela

4. ORGANIZATIONAL INTEGRATION: SINGLE AGENCY

- Centralizes and optimizes tax control and collection powers;
- Applies the Single Taxpayer principle;
- Applies the one-stop shopping window, synergies, integral public service, taxpayer assistance and procedure simplification;
- Promotes professional development of officials and efficient development of material and human resources;
- Saves costs to the State and maximizes the use of resources – data networks, payments and systems, etc.

5. FUNCTIONAL INTEGRATION

- Information Collection and Processing Systems;
- Taxpayer Information and Assistance Services;
- Taxpayer Registry;

- Payment processing;
- Current account control;
- Collection and payment agreements;
- Services to Manage Material and Personal Resources;
- Training Services.

6. INDIRECT ADVANTAGES OF INTEGRATION

- Risk management
 - Risk assessment may be significantly improved with the supplementation of elements from different sources.
 - Defining notions of noncompliance and inconsistencies.
 - Imports, exports and sales.
 - Salaries, income and payments to social security.
 - Foreign trade transactions, inventory, purchases and sales.
 - Appraisal processes and transfer pricing in transactions among related parties.

7. RISKS OF THE INTEGRATION

- Two organizations sharing one head:
- Process differences are maintained.
- Shared support structures.
- Technology, planning and internal control may also be separated.
- **One organization absorbing the other.**
 - Organizational environment issues.
- **Two specific business areas, and a common control area.**
- **Feasibility of the model structures in a merger scenario.**
 - By tax?
 - By function?
 - By type of taxpayer?
 - Highly hierarchical or flat structures.

8. CHALLENGES OF TAX ADMINISTRATION UNIFICATION, MERGER AND INCORPORATION PROCESSES

- Government policy
 - The decisions go beyond the responsibility of the officials of the relevant organizations.
 - It constitutes a strategic government development.
- **Legal aspects**
 - Adjustments shall not affect the operating continuity at the time of transition.

- The merger shall not overrule any of the powers in the organizations.
- **Defining functions and institutional relations.**
- **Process management committee and project manager.**
- **Ensuring service continuity;**
- **Maintaining two simultaneous systems;**
- **Facing reactions to change;**

9. THE GREATEST CHALLENGE: THE IMPLEMENTATION STRATEGY

- **Design the process according to phases, identifying the preliminary merger stage, the transition and the start of the new phase.**
 - Early risk detection and mitigation steps in each phase are decisive.
 - Each phase shall identify priority actions.
 - Each phase shall also identify the minimum control requirements to be met.
- Logistics
 - The merger shall require adapting the physical infrastructure to the material and equipment supply processes, and human resource management and development.
 - Careers, powers, remuneration, unions
 - Training
 - Skills' development

10. ACTION PLAN

- a. **Focused on merger objectives**
 - i. Process improvement
 - ii. Generation and use of synergies
 - iii. Efficiency improvement
- b. **Aspects and phases**
 - i. Incorporated services
 - ii. Merged services
 - iii. Specialized services
- c. **Areas**
 - i. Regulations
 - ii. Management
 - iii. Technology
 - iv. Internal services
 - v. Contingency
 - vi. May or may not require a regional specific treatment.

11. ACTION PLAN (2)

- **Human Resources**
 - Leadership
 - Identifying the process champions from early stages.
 - Associations and unions.
 - Internal and external opinion managers.
 - Identifying managers as change agents.
 - Incorporate middle managers as promoters of a shared strategy.
- **Communication project.**
 - **Strategic communication plan**
 - Internal.
 - External.
 - Disseminating the grounds and advantages of the change.

IMPROVEMENT OF THE EFFECTIVENESS OF THE TAX ADMINISTRATION THROUGH NEW ORGANIZATIONAL MODELS

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***Contents:** Executive summary.- 1. Introduction.- 2. Kenya revenue authority .- 3. Change management at Kenya Revenue Authority.- 4. Areas of organizational change at KRA.- 5. KRA's experience in managing change.- 6. Conclusion.- 7. References*

EXECUTIVE SUMMARY

The Kenya Revenue Authority (KRA) is charged with the responsibility of assessing, collecting and accounting for all revenues in accordance with specific laws. It has a workforce of over 4000 employees working in stations spread throughout the Republic of Kenya. It is headed by the Commissioners General (CG) as its chief executive. The Authority's vision is to be the leading revenue Authority in the world respected for professionalism, integrity and fairness. KRA has been undergoing organizational transformation for the past 14 years. This paper gives the literature on theoretical transformation, the changes which the Authority has undergone over time and shows how it manages the change process.

Organizational transformation is given as the process of ensuring that an organization can develop and implement major change programmes that will ensure that it responds strategically to new demands and continues to function effectively in a dynamic environment in which it operates whose activities may involve changes to the structure, processes and culture of the organization. At KRA transformation programmes are led by top management.

During the period of organizational transformation there is the need to manage change. This is understood to mean planning, initiating,

realizing, controlling and stabilizing change processes at both corporate and personal level. Change management is understood to be a structured and strategic approach to initiate and manage the change process.

Organizational change has occurred every time KRA has had to make a transition from one state to another. There have been four major areas of organizational change at KRA. These include strategic changes, technological advances, structural changes and people. Revenue Administration Reform and Modernization Programme was initiated in 2003, with a full project team, to improve efficiency and service delivery. As a consequence, there was a high rate of computerization. Among other initiatives, S2005S (Simba) system was implemented to handle the clearance process in customs, the Document Processing Centre (DPC): a 24-hour working system was implemented to cater for the centralized processing of import documents, Paybox and Orbus modules were implemented to enhance electronic payment of taxes and document collection, Cash receipting system data capture and imaging were implemented to reduce revenue leakage and provide timely data access and, Fixed Assets, Cash Book and Cheque Printing modules of Scala were activated. At the same time the Investigation and Enforcement function was integrated and a business intelligence unit set up, Value Added Tax (VAT), Income Tax, and Excise Duty were merged into one department called Domestic Taxes (DTD) to create integration and single premise approach to the tax payer.

Most recent initiatives include; modernization of Simba and its roll out to the stations, introduction of Customs Oil Stocks System (COSIS) and the Valuation data base, acquisition of cargo X-ray scanners to assist in verification and detection, development and implementation of the Integrated Tax Management System (ITMS) to enable online registration, and modernization of the Vehicle Management System (VMS) to allow it to communicate seamlessly with the SIMBA 2005 System to allow easy registration of motor vehicles.

Business processes were improved by implementing the Revenue Authority Digital Data Exchange (RADDEx) which allows for sharing of customs information with Kenya's regional partners, introducing self assessment declarations in customs management and initiating implementation of one stop border post as part of the East African Trade and Transport initiative. The Electronic Cargo Tracking System (ECTS) was put in place to track transit cargo from ports to borders to minimize diversion of transit cargo into the domestic market. KRA implemented a Free Open Source Software, the Enterprise Resource Planning (ERP) system which merges the support administrative

functions to enable efficiency, effectiveness, transparency and ensure compatibility of systems and procedures

To manage change effectively, the Authority adopted a more efficient corporate structure and systems as part of modernizing and improving business processes and infrastructure. More effort was devoted to front-line services, compliance, and enforcement functions. Other strategies employed included; top management leading in the transformation process, phased approach in the implementation of change, effective communication, creation of projects office under the Commissioner General's office, linking business plans with corporate plan, centralization of support services, engagement of Treasury for goodwill and sponsorship, capacity building, increasing the span of benefits, rewards and introduction of recognition awards for good performance, employee involvement and stakeholder involvement.

Despite facing a few challenges such as limited budget, dealing with several competing initiatives and a bit of stakeholder resistance, overall, the change management process at KRA, led by dynamic team leaders, has been a success story. The Authority has achieved an exemplary record of successfully mobilizing the bulk of Government revenue at minimal cost by building and utilizing an enabled professional team that is self driven.

1. INTRODUCTION

Background

In the current turbulent global environment organizations must be able to cope with unique situations in order to survive and remain competitive. The rapid changes that are taking place in the environment are causing fundamental transformations that have a dramatic impact in organizations which is presenting new opportunities and threats for leadership in organizations. Pierce and Robinson (2007) note that the pace of change has increased through telecommunication change and market globalization and that change is an integral part of what leaders and managers deal with.

Organizational transformation

Organizational transformation is the process of ensuring that an organization can develop and implement major change programmes that will ensure that it responds strategically to new demands and continues to function effectively in the dynamic environment in which it operates. Its activities may involve changes to the structure,

processes and culture of the organization. It changes the outlook of the organization. It may be initiated by various reasons including a new chief executive. In transformational change, significant developments are incorporated into corporate structures and organization wide processes. Organizational transformational change is business driven and focuses on how do things need to be done to ensure business performs better. (Beckhard, 1989) states that there are four types of transformational change. These are changes in what drives the organization, change in relationships between or among organizational parts, change in the ways work is done e.g. introduction of new technology and change in cultural norms, values or research systems, for example developing customer focused culture.

Transformational programmes are top led. Leaders emphasise on commitment from the people to action and focuses on the development of new levels of awareness of where the future lies and committing to achieving the future. Leaders need to manage the transition from current state to future; that is determine the new processes, procedures, systems, and structures that need to be developed. People must be involved in the process and communication becomes very important because it is by communicating that people become committed to change. Change management is a systematic approach to dealing with change both from the perspective of organization and on the individual level. A somewhat ambiguous term, change management has at least 3 different aspects including adapting to change, controlling change and effecting change. A proactive approach to dealing with change is at the core of all the 3 aspects. For an organization change management means defining and implementing procedures and or technologies to deal with changes in the business environment and to profit from change opportunities. The more effectively you deal with change the more likely an organization is likely to thrive.

Change management means to plan, initiate, realize, control and finally stabilize change processes on both corporate and personal level. Change is the continuous adoption of corporate strategies and structures to change external conditions. It is a structured and strategic approach to initiate and manage change process in the organizational structure and culture as teams /individuals' behaviour and attitude towards the change transition in the field of business processes, technology implementation or any other policies of an organization. Change management involves creating awareness on why change is needed, inculcating a desire to cooperate and participate in the change process, providing and collating knowledge to guide in the change process, developing ability and appropriate skills to drive change process and formulating reinforcement strategy

and plans to sustain change. A successful change process needs to focus on the business environment, examine the extent of fit between the business and its changing environment, challenge conventional wisdom, articulate a compelling vision, form a coalition of supporters, lead the implementation process, stay on course in spite of the perceived difficulties as well as rewarding and recognizing people for contributions made to the process.

Theoretical Foundations of Change Management

According to (Burnes 2004), there are three schools of thought on change management: individual perspective school, group dynamics school and open systems school. The individual perspective school is further divided into 2 groups; the behaviourists and the gesalt - field psychologists. The former view behaviour as resulting from an individual's interaction with the environment. On the other hand the latter believe that behaviour is a product of environment and reason. The behaviourists believe that behaviour that is rewarded tends to be repeated therefore it is necessary to change conditions that cause it (Skinner, 1970). The gesalt- field theorists believe that learning is a process of gaining insights, expectations and outlooks or thought patterns. It not only takes into account the persons actions but the interpretation the person places on this. Both groups have been influential in the management of change.

The group dynamics school places emphasis on bringing about change through teams or work groups. People in organizations work in groups' therefore individual behaviour must be seen and modified to suit group norms and practices. The focus of change is at the group level by influencing the groups' norms, roles and values. This school of thought has influenced the theory and practice of change management. It is now usual for organizations to see themselves as comprising of groups and teams rather than merely collections of individuals (Mullins, 1989).

The open systems school sees the organization as composed of a number of interconnected sub systems. A change in one part of the system will impact on the other parts. Being open systems means organizations interact with the external environment and internal via the various sub systems. The objective of this school is to structure the functions of business in a manner that the overall business objectives are collectively pursued. It attempts to understand organizations from a holistic perspective rather than a particularistic perspective. There are four principal organizational sub systems; organizational goals and values sub system, technical sub system, psychosocial sub system and managerial sub system.

Organizational goals and values

This entails the stated objectives and values that an organization wishes to promote. An organization needs to ensure that its goals and values are compatible not only internally but also externally.

Technical

This refers to the specific combination of techniques, technologies and knowledge which an organization requires in order to function. The concern is on compatibility and appropriateness of these in an organization.

Psychosocial

This refers to an organizations' climate and culture. The fabric that binds people together. It is influenced by the organizations environment, history, people in addition to technology and structures. Any weakness will threaten the binding of the organization together.

Managerial

It is relates the organization to the environment, this includes developing appropriate strategic plans, designing structures and control processes and setting goals.

Sub systems are interdependent and an alteration in one part affects the other parts of the systems. Training is unlikely to succeed in effecting change as it focuses on the individual and not the organization. It is imperative that organizations tap into and direct energy and talent of their staff in order to be successful.

Change Management Models

There are several models of change management which include organizational development, force field analysis and eight phases among others.

Organizational Development

Organizational development is one of the approaches to change. It embraces the organization as a whole and addresses change as a function of the external environment and internal transactions between the various sub groups within the organization. According to Cole (2002), it involves establishing the need for change and when such

a need is identified an insider or outsider is appointed to coordinate the change. It also requires an analysis and diagnosis which involves preparing and designing appropriate and acceptable means of acquiring relevant information, action planning and implementation based on decisions made, evaluation and review and finally revision of the programmed.

Force Field Analysis

Force field analysis is a problem solving and action planning technique described by Kurt Lewin and can be used during multiple phases of the planning process. According to Dessler (2008) the process of leading change as defined by Kurt Lewin involves unfreezing, moving and refreezing. He states that the unfreezing phase includes establishing a sense of urgency and mobilizing commitment through joint diagnosis of problems facing the organization. The moving phase includes creating a guiding coalition, developing and communicating a shared vision and this can be done by keeping the communication simple, using multiple forums, repetitions and leading by example. Leaders can assist employees make change through such means as training, reviewing policies, procedures and organizational structure. The refreezing phase involves reinforcing the new way of doing things and includes changes to the organization's systems and procedures, using new appraisal systems and incentives to reinforce desired behaviour. It also involves change culture through role modeling and communicating new values. He notes that organizational renewal often starts with a change in a firm's strategy, mission and vision. The goal of force field analysis is explained as being able to help leaders and other stakeholders identify, document and understand those forces that are likely to influence plan implementation. Some forces assist drive change while others hinder the desired change. Leaders can act to leverage helping forces and mitigate hindering forces. Many leaders involved in change are using this model.

Eight Phase Model

(Kotter,1995) summed up the eight steps required to transform organizations as follows; establishing a sense of urgency by inspiring people to move on and making the objectives real and relevant. Building a guiding team that is getting the right people in place with the right emotional commitment and mix of skills and levels. Getting the vision right; get the team to establish a simple vision and strategy and focus on emotional and creative aspects necessary to drive service and efficiency. Communicating for buy in by involving as many people, communicate essentials simply to appeal and respond to

peoples' needs. Empowering action by removing obstacles, enabling constructive feedback and a lot of support from leaders. One must also recognize and reward progress and achievements. Creating short term wins through setting aims that are easy to achieve and manageable number of initiatives. Not letting up requires one to foster and encourage determination and persistence while at the same time highlight achievements and future milestones. Finally making the change stick by reinforcing the value of successful change via recruitment, promotion of new change leaders and weaving change into culture.

Leadership in change management

Throughout periods of change, leaders need to concentrate on having their people move from change avoidance to change acceptance. It means moving people from a state of denial to a state of acceptance (Conner, 1993). Leaders need to change the people's attitude from avoidance to acceptance. Change leadership addresses the aspects of influencing, inspiring and integrating necessary behaviours that drive sustainability of change. There are ten (10) critical success factors for leading change; the process of validation requires a leader to build a compelling business case. Calibration whereby business outcomes are aligned with key success metrics, sponsorship where one acquires and engages appropriate sponsorship, value proposition where the localized vision is articulated and cascaded, road map by mapping out the entire journey, mobilization by building momentum and creating critical mass. Others are; deployments by validating, testing and tactical go live, impact assessment where summative evaluation and reporting is done and lastly sustainability where momentum of change to drive a sustained capability is maintained. Caldwell (2003) notes that change leadership is about creating a vision for change while change management is about translating the vision into agendas and actions.

Implementation of change involves influencing people to use the technology effectively and or consistently following new methods in the context of doing their jobs. Leadership towards change requires effective communication, full and active executive support, employee involvement, organizational planning and analysis and widespread perceived need for change. Successful change management requires a large commitment from executives and senior managers. Leaders need to establish a clear vision for the change management process, appoint an executive champion who owns the change management process who makes appropriate people in the organization involved,

pay attention to the changes occurring - asking how things are going and focus on progress and barriers for change management.

Leaders need to sponsor portions of the change or the change management process as in involved participant, to increase active involvement and interaction with other organization members. They need to establish a structure which will support the change. This may take the form of a steering committee, leadership group or guiding coalition. They need to change the measurement, reward and recognition systems to measure and reward the accomplishment of new expectations. Leaders need to solicit and act upon feedback from other members of the organization, recognize the human element in the change; people have different needs and different ways of reacting to the change. They need time to deal with and adjust to change. Pierce and Robinson(2007) state that when embracing change, leaders need to reshape their organizations culture and that this can be done through elements of good leadership such as vision, performance, principles, perseverance, passion, reward systems, symbols and structure.

Senior leaders must participate in the training that other organizational members attend and must exhibit their learning from the sessions. Leaders must be honest and worthy of trust; treat people with the same respect they expect from them. Leaders that can challenge, motivate and empower their teams through change are successful. They need to prepare for the journey by establishing credibility and a track record of effective decision making so that there is trust in their ability to figure out what is necessary to bring the organization through. Leaders need to slop through the swamp by playing a critical role during the change implementation period. During this period the organization is most unstable characterized by confusion, fear, loss of direction, reduced productivity and lack of clarity about direction and mandate. It can be a period of emotionalism; leaders need to focus on two things; first the feelings and confusion of employees must be acknowledged and validated, second, leaders must work with employees to begin to create a new vision of the altered workplace. After arrival is the ideal time for leaders to introduce positive new change. It is only leadership that can get change to stick by anchoring it in the very culture of the organization. The leader communicates a sense of confidence and control (or lack thereof) to the employee. Communicates his or her own feelings about the change, the degree to which he/she trusts the abilities of the employees to get through the change and a sense of purpose and commitment. A leader communicates the degree to which he/she accepts the reactions and feelings of the employees and the expectations regarding behaviour that is seen as appropriate or

inappropriate. Leaders further communicate the degree to which he/she is connected to employees' situation and feelings or is in touch with them.

Whenever a leader communicates about change one should convey that they are personally committed to the change and seeing it through even if it had negative consequences. That they recognize that the change negatively impacts upon some people and that the leader is open to discussion of the feelings of the employees regarding the change. That the leader is confident that the team can make it through the change and wants and needs input to make the changes work.

2. KENYA REVENUE AUTHORITY

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. Before 1995, the revenue collection functions of the Government were distributed among at least five different ministries and/or Departments. Lacking in co-ordination, their performance was characterized by inefficiency and low levels of accountability. The rationale behind the establishment of the Authority arose from the need to enhance efficiency, transparency and accountability in this critical area of the public sector. The main objective of the establishment of KRA, therefore, was to streamline the public revenue-generation function by bringing the relevant agencies under the umbrella of the central finance agency, the Ministry of Finance. This restructuring was expected to provide an effective administration for the enhanced mobilization of Government revenue in a sustainable manner. A Board of Directors, consisting of both public and private sector experts, makes policy decisions which are then implemented by KRA Management. The Chairman of the Board is appointed by the President of the Republic of Kenya. The Chief Executive of the Authority is the Commissioner General who is appointed by the Minister for Finance.

The Authority's vision is to be the leading revenue Authority in the world respected for professionalism, integrity and fairness. The mission statement is to promote compliance with Kenya's tax, trade and border legislation and regulation by promoting the standards set out in the Taxpayers charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well being of Kenyans. The core values of the Authority are integrity, professionalism, fairness, equity, commitment and teamwork and corporate social responsibility.

Role of KRA

The role KRA is as follows:

- ❖ To administer and to enforce written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws.
- ❖ Advise on matters pertaining to the administration of/and the collection of revenue under written laws.
- ❖ Enhance efficiency and effectiveness of tax administration by eliminating Bureaucracy, Procurement, Promotion, Training and Discipline.
- ❖ Eliminate tax evasion by simplifying and streamlining procedures and improving tax payer service and education thereby increasing the rate of compliance.
- ❖ Promote professionalism and eradicate corruption amongst K.R.A. employees by paying adequate salaries that enables the institution to attract and retain competent professionals of integrity and sound ethical morals.
- ❖ Restore Economic Independence and Sovereign pride of Kenya by eventually eliminating the perennial budget deficits by creating organizational structures that maximize revenue collection.
- ❖ Ensure protection of local Industries and facilitate economic growth through effective administration of tax laws relating to trade.
- ❖ Ensure effective allocation of scarce resources in the economy by effectively enforcing tax policies thereby sending the desired incentives and shift signals throughout the country.
- ❖ Facilitate distribution of income in socially acceptable ways by effectively enforcing tax laws affecting income in various ways.
- ❖ Facilitate economic stability and moderate cyclic fluctuations in the economy by providing effective tax administration as an implementation instrument of the fiscal and stabilization policies.
- ❖ Be a 'watchdog' for the Government agencies (such as Ministries of Health, Finance, etc) by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders.

3. CHANGE MANAGEMENT AT KENYA REVENUE AUTHORITY

Organizational change has occurred every time KRA has had to make a transition from one state to some desired future state. As a consequence KRA has had to manage organizational change through planning and implementing change initiatives in such a way as to minimize employee resistance and cost to the organization, while also maximizing the effectiveness of the change effort.

We realize that today's business environment requires organizations to undergo changes almost constantly if they are to remain competitive. Factors such as globalization of markets and rapidly evolving technology force organizations to respond in order to survive. Whereas some change initiatives at KRA have often arise out of problems faced by the organization, most of the changes initiatives have been implemented for more positive reasons i.e. to make the systems and processes more efficient and effective.

4. AREAS OF ORGANIZATIONAL CHANGE AT KRA

There have been four major areas of organizational change at KRA. These include strategic changes, technological advances, structural changes and people.

With the realization that all four areas are related, KRA has very often instituted changes in the other areas when she attempts to change one area. Strategy changes have taken place when the Authority has had to venture into new revenue sources as well as when deliberate effort is made to increase revenue collection in order to reduce costs.

Although technological changes have often been introduced as components of larger strategic changes, they have sometimes taken place on their own within the Authority. The important aspect, within KRA, of changing technology has over time been the determination of the affected employees. For this reason, technological advances have of necessity been incorporated into the Authority's overall systems and management structures created to support the processes.

As a consequence of strategic reasons, operational changes and managerial styles, structural changes have occurred over time since the inception of KRA.

In 1995, KRA was formed as the central government revenue collecting agency bringing together three departments from Ministry of Finance and one from Ministry of Transport and communication. The Income Tax (IT), Customs & Excise (C&E) and Value Added Tax (VAT) Departments moved from the ministry of Finance whereas the Road Transport Department (RTD) came from the Ministry of Transport. There lacked synergy between departments leading to unhealthy competition, rivalry and duplication of effort which were not supportive of the vision, mission and the mandate of the Authority.

There was no integration as KRA remained a tax-based organization with the inherent inefficiencies that result from such a structure. As a

result there was replication of organizational units for each tax and scarce resources being wasted on repetitive jobs. Each revenue department continued to retain its own units in taxpayer recruitment, audit, investigation, taxpayer education, debt management etc.

Most processes including administrative procedures were done manually with very little computerization. There was little use of computers motor vehicle registration and licensing, cash receipting at RTD and electronic filling of returns. Little had been done on installation of e-mail services and electronic banking facilities. Customs and Excise department had obsolete systems, PAYE and withholding tax internal processes still used manual systems while critical systems needed to support service departments such human resources, finance, investigation and research were not available. Overall, the systems at KRA used the old traditional approach to data processing i.e. data entry of paper documents with reports being generated on ad hoc basis. The systems were incapable of sharing information with each other leading to delays in decision making. Customer could not be served efficiently and effectively and this could be manifested from the massive confusion which existed in the then long rooms.

The structure and personal relationships were not in harmony with the overall objective of the organization. The Authority was managed under the guidelines and policies of the civil service. This, in the absence of the necessary structural framework did not suit the objectives of KRA. The staff lacked harmony and their loyalty was more to their departments and not KRA. There existed differences in the education levels whereby majority staff in Income Tax and VAT had university qualifications and a very low percentage of graduates in Customs and Excise department.

The staff from the various departments joined the Authority bringing with them disparate culture from their parent ministries. Culture is a way of life, is the set of norms, values and beliefs that govern behaviour. During this initial period of formation the Authority was unstable in that it had a mix of staff from various departments with diverse cultures, different structures, systems and procedures. Building a team sharing one common vision, culture and integrating the systems and procedures and processes was the immediate priority of management. The procedures were mainly manual and the culture was more of enforcement of compliance rather than customer focus. Staff still considered themselves to be either income tax, value added tax and customs and not as Kenya Revenue Authority. Each department had its own Human resources section, finance section, administration and so on. There was some form of semi autonomy while at the same time

there were fully fledged Human Resources and Finance departments at the Head office. Integrating the people, the structure, policies and the processes were a challenge to management. There was duplication of processes and mandates in the revenue departments and it seemed that departments were pulling in different directions. Performance management was relegated.

During the second plan period (2003 – 2006), the Revenue Administration Reform and Modernization Programme was initiated whose objective was to improve efficiency and service delivery to the tax payers. In order to achieve this office of Project management and business analysis was created. Its mandate was to coordinate the reforms in the Authority. The reforms were structural, functional and technological. A number of projects were mooted and each of them had a steering committee and a project team that was responsible for implementing the project. The strategic theme of the second corporate plan was “Enhanced Revenue Collection through Enhanced Quality Service to Stakeholders, Modernization of KRA Internal Processes and Revitalization of the Workforce”. The key objectives included achieving operational excellence through modernized processes, revitalization of the workforce to produce a technically competed workforce, ensuring exemplary service delivery to taxpayers and surpassing revenue targets at lowest cost.

Under the Revenue Administration Reform and Modernization Programme, there was a high rate of computerization which made the processes simpler and faster. The S2005S (Simba) system was implemented to handle the clearance process in customs. The objective was to modernize customs administration in accordance with internationally accepted conventional standards and best practice as outlined in World Trade Organization (WTO) agreements and the World Customs Organization (WCO) Revised Kyoto Convention on Simplification and Harmonization of Customs Procedures. The Document Processing Centre (DPC): a 24-hour working system was implemented to cater for the centralized processing of import documents. Clearing agents and importers could now lodge their documents any time of day and from anywhere in the world to processing of entries within 24 hours of being lodged. This was a shift from the previous system of manual processing of documents in long rooms.

The Paybox and Orbus modules were implemented to enhance electronic payment of taxes and document collection as well as improve control and monitoring of business operations to boost efficiency. In Road Transport Department (RTD) Cash receipting system data

capture and imaging were implemented to reduce revenue leakage and provide timely data access. The Fixed Assets, Cash Book and Cheque Printing modules of Scala were activated. Overall, the level of automation improved from computer to staff ratio of 1:5 to 1:3. Information technology data security audit was undertaken to ensure compliance, business process improvement was undertaken to create integration and single premise approach and also restructuring done to create a function – based organizational structure. The Investigation and Enforcement function was integrated and a business intelligence unit set up. Value Added Tax (VAT), Income Tax, and Excise Duty were merged into one department called Domestic Taxes (DTD) to create integration and single premise approach to the tax payer.

In order to create a professional team, a number of initiatives were undertaken including developing and implementing new schemes of service, remuneration and other benefits were reviewed and implemented, intensive capacity building was undertaken, a communication policy developed and a new performance contracting and appraisal system, based on Balanced Score Card was implemented. The aim was to revitalize and develop a workforce respected for technical competence, professionalism and courtesy. The policy to take all graduate trainees through all tax modules was mooted and implemented. In addition to imparting the necessary tax administration skills, the other aim was to “create” members of staff who will identify themselves with the whole organization.

To improve service delivery during the plan period at the least cost with maximum satisfaction to the stakeholders KRA took its services closer to the people, enhanced tax payers’ education, developed a taxpayer charter and internal standards for staff to increase efficiency, and increased its community visibility through participation in corporate activities and recognized top and compliant tax payers. Road Transport Department (RTD) moved the issuance of Public Service Vehicle (PSV) and Transport Licensing Board (TLB) licenses to the regions. DTD rationalized all stations to offer VAT, Excise and Income Tax services. In addition, more return collection, cash receipting and satellite centres were introduced to reduce cost of compliance and bring services closer to the taxpayers.

Taxpayer Services Division was established under the Support Services Department and the function centralized to enhance the effectiveness of taxpayer education and improve coordination. Customer care desks were opened in all KRA stations and major centres. Similarly, the print and media campaigns were introduced to raise the level of awareness.

The concept of Tax Clinics was adopted, with service oriented approach where taxpayers were educated on various tax matters.

During the third plan period (2006 – 2009), KRA's strategic theme was "Develop a dedicated professional team embracing modern processes and technologies to deliver customer focused services that enhance compliance and revenue collection". There were new change initiatives within the Authority as well as a continuation of others from the previous plan period. The main goals included; developing a dedicated and professional team, re-engineering business processes and modernizing technology, improving and expanding taxpayer services as well as enhancing revenue collection and strengthening enforcement.

In developing a dedicated and professional team, the Authority was able to implement a revised remuneration package, employ new and qualified staff, introduce performance contracting and cascade it throughout management, and enhance integrity through implementation of the corruption prevention plans and the setting up of an internal affairs office to deter corruption and enhance a culture of integrity. A job evaluation exercise was initiated in the Authority to objectively and systematically rank, grade and weigh jobs in order to determine their value and appropriate remuneration and thereby determine internal and external equity. The Job Evaluation was also expected to develop an organization structure that would support the changed processes.

Other major Human Resource Projects included Coaching and Mentoring and the development of the human resource policies. In order to provide support, guidance and advice to newly recruited employees as well as assist staff to keep pace with numerous changes in the working environment, the Authority commenced the implementation of the coaching and mentoring programme to pass on knowledge and skills. The Authority developed Human Resources Policies which provide, regulate guidance and build a common culture amongst staff. Some of the policies developed included recruitment, induction, promotion and separation policy, remuneration and reward policy, training and development policy, gender mainstreaming policy, drug and substance abuse policy among others. The KRA Management Development Strategy to help in the nurturing and modelling of managers was developed and implementation commenced. The core competencies framework was developed and implemented to aid in various initiatives including recruitment, deployments, training and development. Psychometric testing and Assessment centre activities were initiated to aid in streamlining recruitments, deployments,

training needs assessment within the Authority, promotions and career progression.

The Kenya Revenue Authority Training Institute (KRATI) offices and accommodation facilities were renovated. To make it a centre of excellence and also facilitate technical courses training and implementation of a newly developed Management Development Framework, KRATI signed Memoranda to partner with Eastern and Southern Africa Management Institute (ESAMI) and the University of Canberra (Australia). It is currently in the process of doing the same with the University of Nairobi (Kenya).

During the plan period, KRA undertook to re-engineer business processes and modernize technology. It aimed at conducting Business Process Improvement (BPI) and increase scope of electronic interaction with taxpayers to boost staff productivity and taxpayer service through modernizing information technology (IT) systems, improving IT security and modernizing business processes and infrastructure. IT initiatives included the modernization of Simba and its roll out to the stations, introduction of Customs Oil Stocks System (COSIS) and the Valuation data base, acquisition of cargo X-ray scanners to assist in verification and detection, developed and implemented the Integrated Tax Management System (ITMS) to enable online registration and filing there reducing cost and increasing compliance, and modernized the Vehicle Management System (VMS) to allow it to communicate seamlessly with the SIMBA 2005 System to allow easy registration of motor vehicles.

Business processes were improved by implementing the Revenue Authority Digital Data Exchange (RADDEx) which allows for sharing of customs information with Kenya's regional partners, introducing self assessment declarations in customs management and initiating implementation of one stop border post as part of the East African Trade and Transport initiative. The Electronic Cargo Tracking System (ECTS) was put in place to track transit cargo from ports to borders to minimize diversion of transit cargo into the domestic market. KRA implemented a Free Open Source Software, the Enterprise Resource Planning (ERP) system which merges the support administrative functions to enable efficiency, effectiveness and transparency. It provides an integrated application with a unified database.

KRA worked to improve taxpayer services through education seminars and sector based stakeholder lectures. The tax payers' charter was revised and uploaded on the KRA website. A Time Release Study (TRS) was carried out to gauge the level of reduction in release

time for imports following implementation of SIMBA. With respect to facilitating participation, the Authority established partnerships with key stakeholder organizations and launched the Authorized Economic Operator (AEO) scheme to give preferential treatment to compliant traders. Initiatives to simplify the tax process included KRA re-branding, establishment of the Customs Valuation and Excise Tribunal and enhanced CSR programmes.

The Authority adopted a more efficient corporate structure and systems as part of modernizing and improving business processes and infrastructure. More effort was devoted to front-line services, compliance, and enforcement functions. During the period, the Authority created single premises for most stations and centralized administration services including transport. The support services were structured along functional lines to increase efficiency.

5. KRA'S EXPERIENCE IN MANAGING CHANGE

Change must be led from the top. The leader must exude confidence and must be committed to the change. Leaders must inspire, influence and create "buy in" at all levels in order to drive change. There has to be constant communication on the business case, the migration plan and the vision from the top. There should be feedback mechanism. The Commissioner General and the Board of Directors were at the forefront of the change initiatives. They consistently communicated and demonstrated their commitment to the change. Leaders are required to mobilize people and resources to realize the change. This was effectively done by communicating on what will change, how it will change, why it needs to change and what the future state will be. This is very critical for "buy in", acceptance and support. There should be constant reassurance to staff on what will happen / not happen and the vision and migration plan clearly understood. There should be no surprises. The leadership also engaged the Principal, the Ministry of Finance for goodwill and financial resources in order to implement the change. Pockets of resistance were identified and difficult decisions were made to separate with such staff. The leadership did not let up the change despite the challenges faced especially with the implementation of simba 2005 when clearing agents went to court and demonstrated against the implementation of the system. Simba 2005 is a success story for the Authority.

To minimize trauma organizations should consistently communicate to staff on the changes especially on the progress being made highlighting the milestones. The communication should be focused on what is expected to change and how the change will impact on the

people. Constant reassurance to staff is needed as this is a period of uncertainty, fear and instability. It is also an opportunity for management to influence the attitude of staff towards change. Organizations can also organize counseling sessions for staff to assist them cope with the changes taking place in the work place. Considerations may be made to appoint counselors within and outside the organization and inform staff to make use of them. This could take the approach of individualized counseling or group counseling as is deemed fit. A counseling desk could be set up and a help line connected where staff could call and be assisted as required.

With the introduction of new technologies and processes staff should be accorded training opportunities so that their skills are in tandem with the new change. Inadequacy of skills and or of knowledge creates fear and intimidation among staff. Ideally the acquisition of skills should be concurrent with the implementation of the change so that once the new system is deployed for use staffs are able to use it. Possessing the required skills and knowledge is a major confidence booster for staff.

Involving employees in the planning and executing of change assists in minimizing trauma because first and foremost the employees understand what it is all about and secondly they know what to expect, when to expect it and how it will impact on them. Walking the talk with them creates buy in and full support for the change thus minimizing resistance.

The use of Performance Contracting and Performance Appraisal systems as operational tools helps to minimize trauma by setting achievable clear goals and objectives. Employees are motivated when they are able to easily achieve their respective targets and objectives. The performance management system clearly outlines how the work gets done and measured and also creates the environment in which people feel valued for their achievements. Using performance contracting the executive, managers and supervisors undertake to manage change initiatives in the Authority.

Various career paths have been developed and put in place to guide on the progression of employees within the Authority. The Authority has also ensured that all employees are conversant with career paths and Human Resources policies. This has been done through sensitizations and circulation of the materials through the Intranet. This way every member of staff is able to see how they will grow in the new working environment.

The Kenya Revenue Authority has put in place reward systems which recognize achievements and accomplishments that contribute to the overall objectives of the Authority. The systems provide guidelines on how employees are selected and rewarded either financially or otherwise. The reward systems focus on positive reinforcement and have been an effective tool for encouraging desired behavior by stimulating staff to take actions because they want to and because they get something of value for doing it. An effectively designed and managed reward program can drive an organization's change process by positively reinforcing desired behaviors.

The Authority uses counseling and stress management programs to help employees' deal with difficult situations. The Authority has contracted experienced institutions and also trained internal counselors to provide these essential services at the time of change. Team building activities, staff parties and sports activities have been used to manage stress in the Authority.

Structures, procedures, and functions can be rendered compatible by ensuring that the business plans are linked to the corporate plan. This ensures that there is alignment between the business goals and the overall corporate goals with a common mission, vision and strategic objectives. The adoption of the Balance Scorecard (BSC) by KRA enabled the Authority to focus on all the perspectives. There must be alignment between the corporate objectives and the business objectives. In developing the corporate plan it is important to involve both internal and external stakeholders and to take into account the political, economic, social and other factors. There is need to conduct a (SWOT) analysis so as to identify the key strengths and opportunities which an organization should maximize on while at the same time developing mitigating strategies for the threats and weaknesses. The Authority succeeded in doing this by engaging staff and external stakeholders while developing the corporate plan. Using the Bsc concept cascaded this into the business plans and identified issues that would be implemented as projects. Changes in the Authority therefore are linked to the strategic direction of the organization which is guided by the mission and the vision.

In addition to this KRA established structures that support change. This was done by creating the Project Management and Business Analysis Office (PMBO) under the office of the CG. The mandate of PMBO was to coordinate all projects, monitor progress and do evaluation. The Authority formed steering committees and appointed project managers and teams to ensure proper coordination of all projects. In addition to this, each project established a change agent network whereby some

staff were appointed as change agents, sensitized on the project and were responsible for communicating the changes to the staff on the ground. These staff were change champions, creating “buy in” and acceptance at all levels.

In order to effectively combine functions into a single one, a review of the mandates of the current functions and structures should be undertaken. Processes should be mapped and duplications and or overlapping of roles and or processes identified and decisions made to consolidate related processes and functions into a single function or structure. Roles and processes that are related should be grouped together.

To a greater extent, functions, structures and procedures can be rendered compatible. KRA's experience is that clearing of motor vehicles at the port has now been integrated with registration. All motor vehicles leave the port of Mombasa having been cleared by customs and registered complete with number plates. These functions were previously separately done by customs (clearing only) and registration (RTD) in Nairobi only. Vehicles would be cleared by customs, leave the port and remain unregistered for a long time. This was a loophole especially for transit vehicles. The seamless sharing of information between Simba 2005 and VMS has enabled motor vehicle registration at the port.

The merger of VAT and Income tax (IT) into Domestic Taxes Department (DTD.) is another example of functions being rendered compatible. The merger enables single view of a taxpayer, conducting of joint audits, compliance and taxpayer registration for both taxes. The merger has enabled the Authority to be viewed as one entity that is Kenya Revenue Authority and not as separate entities. It has assisted in the integration of staff in the Authority. The introduction of ITMS will enable taxpayers apply for online registration and online submission of returns.

The creation of Investigation and Enforcement department (I&E) was to consolidate the investigation of cases of tax evasion and prosecution of tax evaders in addition to investigating staff involved in abetting tax evasion. This allowed for common strategies and approach to tackling the issue of tax evasion. Previously each revenue department had its own investigations function and there was no coordination of the activities, nor common strategies and direction.

Centralization of Support Departments has streamlined uniform application of policies across the Authority and minimized conflicting

decisions. Previously support departments were decentralized in the revenue departments making application of policies and strategies difficult as each revenue department was pushing its own agenda for staff. Centralization has not only streamlined uniform application but has strengthened authority and control over the various support functions.

Establishment of regional offices has supported integration across the Authority. Regions are responsible for resources and are accountable for revenue within their respective regions. The sharing of offices and common resources such as support staff has greatly boosted integration. Prior to these different departments in the regions were responsible for their own finances, resources such as motor vehicles and staff. Staff were still operating in silos of income tax, customs and vat and offices were scattered in different buildings in the same town. This has now changed and the image of the Authority has been boosted.

The creation of marketing and communication department was to assist in marketing products such as the Electronic Tax Registers (ETR), ITMS and the call centre while at the same time communicate to the public the position of the Authority on various issues. The department also coordinates taxpayer education using a common approach unlike before where taxpayer education was decentralized in the various revenue departments.

Key Factors Determining the Scope of Such Compatibility

Communication Strategy

The development of a communication strategy is crucial for successful management of the change process. This includes both internal and external communication. It is important to flood the organization with persuasive communication about the change. Leaders must be able to articulate the rationale for their strategy of change and be prepared for anticipated normal resistance. Emphasis is also made on the content of the message in addition to strategies used to convey the messages. It is indicated that the messages should stress the need for the proposed changes and highlight members' ability to make the changes.

Stakeholder Engagement

Implementation of change relies greatly on a high level of trust and collaboration between management and employees as well as with

external stakeholders. Such trust can be built up through openness and involving employees widely in the change process. Participation strategies give organizational members a change to voice concerns about change and learn about the appropriateness, benefits and support associated with the change. Participation through experience assists participants to recognize the benefits of change if it renders the customers that the leaders had posited when the change was initiated. Key stakeholders both internal and external need to be identified and involved in the process right from the beginning. KRA's experience is that we engaged all relevant stakeholders including government agencies such as Kenya Bureau of Standards, Kenya Bankers Association, and Kenya Ports Authority among others. Internal stakeholders such as Information and technology department, finance and human resources departments have been stakeholders in most projects in the Authority. This is because a change in one part of the organization is likely to impact on other departments and also because the changes were technology based, required funding and impacted on people.

Employee involvement

Gain employee confidence and support by involving them in the change process. Establish change agents network by appointing change agents and using them to champion change at all levels. In addition to this inform having in them on what their role is and when and what they are expected to do. Strategic change champions are expected to have knowledge skills and abilities to marshal resources by influencing others to join the change initiative. This will require an appreciation of the organizational culture, utilizing strategic friendships, acquiring support from sponsors and leadership and being prepared to take calculated risk for the sake of bolstering personal gain. Change champions are expected to bridge the gap between leadership and the rank and file by having or gaining the respect of those affected by the change initiative. They must have personal self driven sense and willingness to take action in promoting strategic change initiatives by working with others. Change champions should derive their reward from the team success and believe that the change transformation is beneficial for the organization. Employee involvement from the planning to the execution does wonders in driving and successfully embedding change.

Financial resources

Change may be capital intensive especially where technology is involved. Information technology solutions are very costly and the

ability to afford technology has an impact on the extent to which compatibility can be achieved.

Leadership Role

This is a key factor to successful change. The recommended type of leadership is one that has developed from experience, leadership that employs humanity and common sense and leadership that is highly adaptive and able to change course of action when it is needed. Transformational leaders are decisive and their decisiveness comes from confidence and lack of fear and anxiety over potential consequences and that for them each act is a part of a finely woven web to produce sustainability and contribute to change momentum. There must be demonstrated commitment and sponsorship from the top. Leaders must walk the talk and ensure that they carry the employees along with them. Leaders should believe in the change and not let up no matter the challenges faced in implementing the change.

Capacity building

The employees must possess the knowledge and skills required to implement the change and sustain it. Deliberate efforts have to be made to ensure that employees are trained on the new skills required to perform their jobs efficiently and effectively. Training programmes should be designed and implemented in tandem with the changes.

Information Technology (IT)

The type of technology employed in the change matters; that is its ability to integrate with other systems and to be upgraded if need be. Acquiring and investing in a system that integrates with others is a major boost to successful compatibility.

Goodwill and Sponsorship

This is necessary especially from the principal, Ministry of Finance. Engagement with them assists in bringing on board other government ministries and agencies as need be.

Teamwork

Employees need to see themselves as being members of one team with a common objective. Success and of failure in one area affects everyone therefore a positive attitude and support from all staff to make it succeed is key. Select and choose a winning team.

Organizational Culture Change

Culture is referred to as the pattern of basic assumptions about how a group copes with the outside world and about how members should act within the group. The development of the relevant attitudes, beliefs and intentions facilitates adoption to change and behaviour that is consistent with the change initiative. The underlying assumption is that organization will move through the stages of readiness, adoption and institutionalization of change when organization members recognize that the change is appropriate, beneficial and supported. There is need to guide managers on the significant factors and barriers to culture change, need for proper planning and management of change, need for communicating through out the project, need to root culture in the business strategy and to align executive leadership at enterprise level , middle rank at departmental or business level in support of change. In addition to this there is need to keep the change manageable through tactics such as phasing change effort, cascading change down management hierarchy and the need to provide for contingency of recovering from barriers including tactics for revitalizing stalled projects.

Organizational Structure review

Alignment of organizational structures and jobs to fit within a changed environment is a key component to successful change. This includes the examination of the organization structure to ensure it is aligned in an appropriate way to deliver the ambitious outcomes identified through the planning process. There is significant room for changes to jobs and work organization in order to support the desired state.

6. CONCLUSION

Managing change at KRA has not been an easy task. However, since inception, the organization has demonstrated an exemplary record to adapt to new working environment. This has been as a result of prudent leadership which has embraced the importance of consultation within the organization, involving top management and the Board of Directors, seeking views of stakeholders including taxpayers, ministries and other government agencies.

As a consequence, KRA is recognized as one of the best institutions in Kenya today. This public confidence has been an important platform when implementing reforms and the confidence of the public sector has been crucial in ensuring that the reforms are implemented successfully. KRA has operational offices at regional levels which offer a modern working environment and improved services to taxpayers

Equally important is the fact that management has instituted an elaborate organizational structure characterized by qualified and committed staff who are led by dynamic team leaders. The Authority has also embraced modern technology in its operations, has built an excellent track record in revenue administration and has earned strong political support from the government.

Good leadership coupled with the strong training capacity at KRATI enables KRA to easily adjust and implement complex modernization initiatives as demonstrated by the implementation of various projects falling under RARMP. The Authority recognizes the role of change management initiatives as a critical component of the transformation process and endeavors to perfect the efficiency and effectiveness of the process, because it is through this that KRA shall deliver on its strategic objectives, fulfill its mandate and achieve its vision. As such the Authority has put in place a communication strategy through which the rationale for change is articulated. In addition to strategies used to convey the messages a lot of emphasis is put on the content.

People issues have been given prominence in the 3rd and 4th corporate plan. KRA acknowledges that people are the most important asset and has endeavored to articulate and implement people issues. Remuneration, training, various incentives, teambuilding activities and a conducive working environment have been the focus of management. The Authority has put in place reward systems which recognize achievements and accomplishments that contribute to the overall objectives of the Authority. The reward systems focus on positive reinforcement and have been an effective tool for encouraging desired behavior by stimulating staff to take actions because they want to and because they get something of value for doing it.

As much as change management focuses on structures, systems and functions, without the people to execute the changes, the efforts of the organization will be fruitless. People are emotional beings, sometimes in the implementation of changes, the soft issues get forgotten. People in organizations need to have a sense of belonging, need to understand what is in it for them in the organization i.e. what they stand to gain in order to buy into the change. Organizations can do a lot more to support the people cope with changes in the working environment. Counseling, communication and training are just but a few interventions that organizations can initiate to assist people cope with change.

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**MANAGEMENT OF CHANGE: LEADERSHIP TOWARD CHANGE,
RENDERING STRUCTURES, FUNCTIONS AND
PROCEDURES COMPATIBLE**

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***“Managing change: leadership towards change, structures,
functions and process”***,

***Contents: 1. Defining the strategy to manage change.- 2. Leadership for
a change of course***

Many of the tax administrations (TA) have undertaken “integration” processes for the internal revenue and customs management, and in some cases for the social security. For this effort there has been an evaluation of the cost benefits of a fusion process, mostly on the support areas of both businesses, like the administrative areas, human capital and information technology.

Nevertheless, it’s inevitable to ponder a possible reduction of effectiveness in the business by integrating to activities that are indeed highly relates since the birth of the tax, however they present particularly specialization qualities.

Since its creation in the year 1994, the Executive Revenue Directorate (DEI) of Honduras has suffered an evolution and transformation process within its organizational structure and service platform, due to the needs of integrating the internal revenue and customs directorates.

However, a decade later the circumstances would lead to the evaluation of this model and the concentration of the tax administration within the Minister of Finance (MOF). This conducted to the centralization of the human capital, financial and budget resources within this

ministry, producing a decrease in the operative efficiency levels of the administration to achieve its collecting goals.

With the objective of presenting new alternatives to improve the model of the Honduran TA, the International Monetary Fund (IMF) and other international assistance and cooperation agencies accompanies DEI towards achieving a profound modernization and transformation process.

In order to attend these goals, DEI creates a managerial project structure to attend to the priority areas that need to be strengthened and modernized, particularly a process reengineering, modernization of its technological platform, renewal of its infrastructure and mainly, the professionalization of its human capital.

Attending this evolution process, DEI seeks to strengthen the process by implementing a reform of the tax system that provides the TA of a legal framework and operative faculties to increase the collection levels. In this way, congress approves a law that de concentrates DEI from the MOF, and gives a national security rank, with administrative, financial, budget and technical autonomy. This marks the point of inflection in the TA.

1. Defining the strategy to manage change

The changer efforts in organizations like; total quality, reengineering, downsizing, restructuring, cultural change, have as a common base a series of phases that must be evacuated, in order to achieve the *process of change*. These phases require a considerable time for its implementation, added to an integral and efficient management, which is the key of success.

As a first step in any change process, its basic to have the certainty of the **decision of change**. This means that there has to be a clarity of all of the pros and cons that leads a government to the necessity of creating a new tax authority.

It's necessary then, to evaluate the following decision elements:

- ✓ Decrease in the tax collection levels and efficiency
- ✓ Need of an integrated and renewed structure for its technological, control, operational and service platform
- ✓ Need for a human capital professionalized
- ✓ Poor levels of communication among the compliance areas
- ✓ Milestone in the public administration, and
- ✓ Political perception of the decision of change

The decision of moving towards a full integration in the tax administration must first pass through the analysis of all of the elements above, seeking to guarantee an increase in efficiency levels. The change must then be on: **processes, people and systems**.

Change management must start from these foundations, focusing on new models of organizational structure based on analysis focused on the effectiveness or ineffectiveness of current processes and their impact on facilitating voluntarily compliance of taxpayers obligations; under a simplification model, with a performance indicator system that allows the organization to take strategic decisions and achieve greater efficiency levels, particularly in the administration human capital.

Finally, it is necessary to emphasize the need for automation and facilitation of these new processes and the provision of tools that enable the organization to achieve faster its strategic objectives, considering the best practices and international standards, under e-government guidelines.

The logical framework for the implementation of change policies, are given by the experience of tax administrations that have undertaken a transformation process and clearly indicate that it is necessary to have a legal framework, management and strategic decision in order to carry out those change politics.

However, there are some basic steps to manage those change policies:

- ✓ **Creating a sense of urgency:** It is vital to start this transformation process, injecting a sense of urgency of the need for a change. This should be a main task of the leadership of the reform of the AT in response to a multitude of problems have to be addressed <<if there is not a sense of urgency, the reform tends to last longer without results>>
- ✓ **Forming strategic alliances:** partnerships to mitigate risk indicators.
- ✓ Improved perception of human capital policy: Employees and officials of the TA should receive a fair treatment in capital human decisions, avoiding political interference.
- ✓ **Communicating and sharing a vision and mission:** The entire organization must have clear goals and objectives expected with this transformation process, trying to describe the overview of the institution in 4 or 5 years. This allows to direct efforts towards a single goal.

- ✓ **Short term Action Plans:** Short term strategies must be developed in order to persuade and empower employees of the need and success of the reform process. For example, personnel actions and incentive programs.
- ✓ **Measuring progress:** There must be a follow up of progress and achievements of the process, in order to identify needs for improvement. <<a appropriate measure of performance allows a better decision making>>
- ✓ **Institutionalize the new approaches, ensuring Leadership Development:** The changes implemented should be part of the official proceedings of the Administration.

In line with these pillars in order for people to achieve an understanding of the need for change, 5 basic points should be addressed:

- ✓ **Awareness** of change
- ✓ **Desire** of supporting the change
- ✓ **Knowledge** and experience while implementing change
- ✓ **Capacity** of developing new abilities and conducts
- ✓ **Reinforcement** to sustain the change process

Ensuring the conditions for sustainability of the change should be a variable to take into account, both short-and long-term. It is therefore essential to strengthen the management leadership, seeking a commitment from top management and board level, the consolidation of an appropriate management structure, developing a logical framework and clarity and understanding across all of the institution levels , that organizational change is merely a platform of change but must be accompanied by a process reengineering and modernization programs in parallel. You must also define risk indicators, identifying resistance to change and lack of institutional cooperation and other elements.

Furthermore, any organization that is implementing a change process requires:

- ✓ A strong "conducting alliance" = it's the combination of those people that if left not included, could block and hinder the process
- ✓ This alliance must have:
 - Decision power
 - Expertise
 - Credibility
 - Leadership

The authentic leader creates strategies and determines the direction in which the institution must advance, while getting subordinates to follow because they are convinced of the validity of their ideas.

The leadership, therefore, is not more than the activity or process of influencing people to strive willingly for the achievement of the objectives of the group, which is necessary to create a vision of what should be the organization and generate strategies to carry out, through a cooperative coalition of highly motivated and committed to make that vision a reality.

Leadership and management (directive level) are two complementary systems of action, each has its own function and characteristic activities and both are necessary for success in an institutional environment increasingly complex, competitive and fluctuating, meaning that the real challenge for the organization is to combine strong leadership with effective management, using both aspects in a balanced manner.

Another challenge in the process is how that leadership potential is developed in every one of the persons involved in the process, therefore it's important to take into account:

"... You can't teach leadership. People learn to lead in the same way as learning any other complex social function, that is slowly, over many years, mainly by trial and error, guided by a vision of what good leadership and often with the encouragement of the model of other people with great leadership."

Organizations that want to learn to adapt to a quickly to a changing environment, require leaders with a "systemic view" with "open mind models" and willing to dialogue with the aim of achieving "shared vision" to enable actions to align to a common purposes.

Leadership cannot be exercised by only one person, due to the complexity of organizations and their situations, requiring the assistance of others and taking an integral view of what you want to make and deliver in an environment of constant change.

A traditional bureaucratic type organization has no leaders, and that has many levels of hierarchy, rules, procedures and control mechanisms that make it very difficult to develop the leadership potential. This represents a contrasts with the new realities imposed by the globalization process that require a greater number of people in developing management functions of high, medium and low-level

not only with management competence, but must exercise leadership skills in their respective areas of activity.

One of the big mistakes repeated in all processes of organizational change lies in the fact that most organizations concentrated 80% of its efforts in addressing changes in management and only 20% in leadership, which necessarily collides with a much more realistic and objective orientation: the problem is not to change the management without changing the leadership, but to convince a sufficient number of people to exercise a leadership position that allows transformations within the Administration.

2. LEADERSHIP FOR A CHANGE OF CURSE

- You have to concentrate on what matters most: The saturation of information we receive, all relevant, make it easy to get confused: what matters most? It is necessary to make a cut and clearly focused on issues most relevant to the real target.
- You have to keep that decision: There are many ways to take and hold decisions. One is to have "the warm heart and a cool head," meaning that we feel all the excitement that awakens us change, but coldly calculating the possibilities. Another is to know both what your priorities and what are their weaknesses, aspects of the institution which can create serious problems as well as those who can create high growth.
- Not choosing is losing. When the wind gets heavy the pilot must act.
- Leadership is good if you get results, therefore:
 - ✓ We must set clear goals and transmit them throughout the organization.
 - ✓ You must measure the results and use them as the only tool to measure success or failure
 - ✓ It's necessary to follow up constantly:
 - ✓ Innovation, future and inspiration: key words to success
 - ✓ A leader has a vision and shares it with its team, generating the environment for success

HUMAN RESOURCES AN ESSENTIAL COMPONENT OF THE MERGER

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***Contents:** HR Objectives.- 1. Facilitating the merger of structures.- 2. Bridging cultures closer.- 3. Preparing tomorrow's administration.- 4. Feedback on the experience.*

HR Objectives:

1. Facilitating the merger of structures
2. Bridging cultures
3. Preparing tomorrow's administration
4. Feedback on the experience

1- Facilitating the merger of structures

1.1. Designing management posts

- competencies
- transparency
- balance

1.2. Harmonizing rules that fit daily work

- harmonize
- improve

1.3. Improve the labor framework

- limiting changes
- counseling from professionals

2- Bridging cultures

2.1. Harmonizing salaries

- equality
- individual recognitions

2.2. Unifying statutes

- approach to seniority
- respect specificities

2.3. Work based on common values

- for agents
- for management

3- Preparing for tomorrow

3.1. Unifying training

- schools
- tools

3.2. Cross referencing experiences

- meetings
- bridging

4- Feedback on the experience

Time
Listen
Communicate

**HUMAN RESOURCES MANAGEMENT VIS-AVIS STRUCTURAL
CHANGES: MANAGEMENT OF THE ADMINISTRATIVE CAREER
PATH, TRAINING, REQUALIFICATION, DETERMINATION OF
SALARY SYSTEMS**

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Contents: 1. Introduction.- 2. Recruitment.- 3. Training.- 4. Training

1. Introduction

The Guardia di Finanza Corps is a police force organized on military lines placed under the direct authority of the Economy and Finance Minister.

The assigned tasks, originally established by the institutional law of 1959, and more recently redefined by Legislative Decree no. 68 of March 19 2001; identify the economic and financial police duties as the primary and exclusive mission of the Corps.

In particular, the “financial police” role includes all anti-tax evasion and public expenditure control duties, performed for the prevention and suppression of offenses regarding the acquisition, management and use of the financial resources of the State, Regions, local Authorities of Italy and the European Union.

The “economic police” role comprises all duties performed for the prevention and suppression of asset-related crimes, and any form of criminal influence, conditioning or infiltration in the production system, in the capital, goods and services markets, to the detriment of the investors, consumers and legitimate enterprises.

In the period 1995-2001, the regulations governing recruitment, legal status and advancement of the various categories of Guardia di Finanza staff were reviewed, adapting them to the new organizational structure and taking into account the public administration reform process, the evolution of the tax system and the ever growing commitments of the Guardia di Finanza deriving from Italy's membership in the European Union.

Indeed, for any administration, the key to success for the optimal achieving of the institutional goals depends largely on the complex issue of staff management, both in terms of training and professional updating as well as enhancement and correct employment of human resources.

In particular, career progression in every administration possibly represents the most delicate and complex moment, involving a series of aspects regarding the assessment of results, performance, competence, individual potential, which inevitably affect the well being of all Administrations, both public and private, in terms of staff motivation, possibility to retain the best resources and last but not least, wage increases for the staff.

2. RECRUITMENT

The Guardia di Finanza conducts the annual recruitment of staff both through **public competitions**, open to all Italian citizens, and through **internal competitions** reserved for those who are already members of the Corps.

The first, published within the limits of the financial resources authorized annually by the Government Authorities, enable to recruit those who meet the requirements established in the relevant competition announcements (see table A) and that, at the conclusion of the selection process, have proven to have the aptitude and cultural qualities required to perform the functions inherent to the position.

As a common factor, the competitive exams generally include a preliminary test of general knowledge or Italian language, a written test, medical and aptitude examinations and, finally, an oral test.

Table A

COMPETITION	AGE LIMITS	EDUCATIONAL QUALIFICATIONS	OTHER REQUIREMENTS
Normal and aero-naval roll Officer Cadets	18 ÷ 22 (maximum limit increased to 28 years for inspectors and non-commissioned officers of the Corps)	Secondary education certificate of 2 nd degree	
Technical-logistical-administrative Officers roll	maximum 32 (between 33 and 42 for the service members of the Corps)	University Diploma	
Temporary Officer Cadets	maximum 32	University Diploma	
Inspector trainees	18 ÷ 26 (maximum limit increased to 35 for service members of the Corps)	Secondary education certificate of 2 nd degree	
Guardsman trainees	18 ÷ 26 (maximum limit may be increased by a period equal to the actual period served, anyway, not more than three years)	Secondary education certificate of 1 st degree	To have served as temporary service Volunteer in the Armed Forces for a year (VFP1), or in annual re-enlistment (VFP1T)

The internal recruiting procedures allow to exploit the potential of the resources existing in the Administration, given due recognition to those that, on the basis of the qualifications and skills displayed during the exams, are found to be worthy of moving up to a higher rank.

Specifically, there are competitions for special roll cadet officers, inspector trainees and guardsman trainees.

The appeal of joining the Guardia di Finanza is strong on the young. Just to mention some data: in the last three years 122,800 applications were received, in addition to the 33,000-plus filed for internal competitions. In respect of these applications, in the same period, a total of 3,763 people were recruited, of which 2,486 by public competition and 1,277 through procedures reserved for members of the Corps (see table B).

Table B

	2007		2008		2009		TOTAL		
	Applications	Posts	Applications	Posts	Applications	Posts	Applications	Posts	Ratio
Public Competitions									
Officers	9,531	74	13,386	142	11,074	67	33,991	283	120:1
Inspectors	22,057	173	26,533	400	23,155	209	71,745	782	92:1
Guardsmen	4,741	286	5,700	663	6,622	472	17,063	1,421	12:1
Total	36,329	533	45,619	1,205	40,851	748	122,799	2,486	49:1
Internal Competitions									
Officers	1,263	35	648	43	561	35	2,472	113	22:1
Inspectors	3,604	79	3,305	74	2,982	171	9,891	324	31:1
Non Commissioned Officers	6,494	270	6,493	270	7,942	300	20,929	840	25:1
Total	11,361	384	10,446	387	11,485	506	33,292	1,277	26:1

In this regard, a growing interest in the Corps has been shown by female candidates who became eligible for enrolling in the Corps in 2000. Indeed, female candidate applications to public competitions in the same period account for approximately ¼ of the total, as can be seen in table C.

Table C

	2007		2008		2009		TOTAL	
	Applica- tions	Female Winners	Applica- tions	Female Winners	Applica- tions	Female Winners	Applica- tions	Female Winners
Officers	2,180	19	3,581	36	2,829	14	8,590	69
Inspectors	5,225	67	6,254	106	5,506	60	16,985	233
Guardsmen	719	23	710	53	466	59	1,895	135
Total	8,124	109	10,545	195	8,801	133	27,470	437

3. TRAINING

The Guardia di Finanza considers training as a constant investment in the professionalism of people, in their competence and skills, and in their ways of contributing to the competitiveness and efficiency of the organization.

So training is one of the strategic levers for the management of human resources.

The Corps' "training system" is divided in two distinct sectors:

- **"basic training"**, given at the respective Institutes, where the aim is to strengthen the choice for and the sense of belonging to the Guardia di Finanza and the actual understanding of the features characterizing the different roles played by the Guardia di Finanza.
- **"post training"**, consisting in all those teaching activities and training actions to the benefit of the staff, according to the assignments received within the organization.
This latter training activity is necessary because the ongoing changes in the public administration processes require the presence of constantly qualified and updated staff.

Also included in the *post* training area is the so-called **"high qualification"**, for the managerial category of the Institution.

3.1. Basic training

The Guardia di Finanza trains "new recruits" through the organization of courses, at various levels, in its training Schools, located throughout the national territory.

The number of cadets in training is currently equal to a total of 1,998, as can be seen in table D.

Table D

Institute		Men	Women	TOTAL
ACADEMY- BERGAMO	Cadets	117	23	140
	Cadet Officers	52	18	70
ACADEMY - ROME – CASTELPORZIANO	Cadet Officers	120	40	160
	Cadets	39		39
TOTAL ACADEMY		328	81	409
INSPECTORS AND NCOS SCHOOL -L'AQUILA	Trainee Warrant Officers	628	180	808
	Trainee Dep. Staff Sergeants	294		294
TOTAL INSPECTORS AND NCOS SCHOOL		922	180	1102

TOPIC 2.2 (Italy)

GUARDSMEN SCHOOL BARI	Trainee Guardsmen	333	34	367
ALPINE SCHOOL PREDAZZO	Trainee Guardsmen	105	14	119
TOTAL TRAINEES LEGION		438	48	486
TOTAL ATTENDANTS 2010				
		1689	309	1998

The **officer cadets** attend a five year course, divided in three years at the Academy in Bergamo, e two specialization years in Rome – Castelporziano, after which the cadets achieve the specialty degree in “Economic-Financial Security Science”.

In particular, the curriculum combines the study of strictly military and technical-professional disciplines with the typical university-level subjects of law, economics and business. (See Tables E and F)

The teaching staff is accurately selected among lecturers with tenure and military and civilian experts with a vast technical and professional knowledge of the subjects taught in the course.

Table E

TRAINING CURRICULA OF THE ACADEMY COURSES		
1st YEAR	2nd YEAR	3rd YEAR
Private Law	Commercial Law	Tax Law
Public Law	Administrative Law	International Law
Criminal Law	Criminal Procedure	Bankruptcy Law
Business Economics	Military Criminal Law and Procedure	Economy of Financial Intermediaries
Elements of Mathematics	Political Economy	European Political Economics
Statistics	Public Finance	Business methodologies and resolutions
English	Accounting	State Accounting
Information Technology	English	English
	Information Technology	Information Technology

Table F

TRAINING CURRICULA OF THE SPECIALIZATION COURSES	
1st YEAR	2nd YEAR
Criminal Law in Economics	International Tax Law
Public Law in Economics	Corporate Finance
Tax Law	Labor and organizations psychology
European Union Law	Direct Tax Legislation
Corporate management and organization	VAT and other Indirect Taxes Legislation
Tax Law Enforcement and Procedure	English
Organized Crime, Money Laundering and Usury Laws	
English	
Information Technology	

The officers of the **Aero-naval Role** also follow the same curriculum, integrated by a series of dedicated activities for the specialization of “Military Pilots” or “Commanders of Naval Stations and Units”.

The course for officers of the **Technical-Logistical Administrative Roll**, held in Rome – Castelporziano, has one year duration and is basically centered on the study and advanced study of the specialization chosen (administration, commissariat, telemetric, infrastructures, motorization, health care, veterinary e psychology).

Temporary officers, who serve for 30 months, attend a course at the Academy in Rome - Castelporziano, during which they follow a demanding training curriculum, based on military, technical and professional subjects, necessary to fulfill the subsequent employment period in the Corps.

As for the “inspectors” roll, the **warrant officers**, from both the normal and sea branches, attend a course at the Inspectors and NCOs School in L’Aquila. In addition to the military and police training, they also study a series of university level subjects in the legal and economic areas.

As of this year, the training course duration for trainee warrant officers has been extended to 3 years. Besides perfecting the already notable standards of current technical and professional training, this will also allow the attendants to achieve, upon completion of the course, a first level degree as “legal business operator”.

The major subjects, on which the normal warrant officer course is based, are analytically listed in table G.

As the courses for officer cadets, the teaching staff is accurately selected among lecturers with tenure from selected universities and military and civilian experts with a vast technical and professional knowledge of the subjects taught in the course.

Table G

TRAINING CURRICULA FOR TRAINEE WARRANT OFFICERS		
1st YEAR	2nd YEAR	3rd YEAR
Public Law Institutions	Criminal Procedure Law	Economics and corporate management
Private Law Institutions	Tax Law II	Economics Law
Commercial Law	EC and Competition Law	History of Modern Law
Business Economics	Public Finance	Labor Law
Criminal Law	Economic-financial police service and other duties of the Corps	Industrial Law
Tax Law I	Services against organized crime and EC fraud	Financial Intermediaries Law
Political Economy	Powers and methods of fiscal controls	English
Military Culture	Accounting	
Military organization, regulations and personnel management	Theory of interpretation and fundamental rights	
English	Administrative Law	
	English	

Considering the skills required from all the members of the Guardia di Finanza, the **guardsmen** are also provided with a sound technical and professional training, through a 12-month course held at the Guardsman Trainees School of Bari or at the Alpine School of Predazzo (TN).

The course consists in two training cycles, both having six month duration:

- the first is for basic training;
- the second is aimed at developing the subjects of a professional nature and duty performance techniques.

The training curriculum of the guardsman trainees is summarized in table H.

The teaching staff is accurately selected among military and civilian experts with a vast technical and professional knowledge of the subjects taught in the course.

Table H

TRAINING CURRICULA FOR GUARDSMAN TRAINEES	
1st CYCLE	2nd CYCLE
Public Law Elements	Professional technique in the judicial police area
Private and Commercial Law Elements	Professional technique in the customs, excise and monopolies area
Customs Law Elements	Professional technique: direct and indirect taxation
Elements of Tax Law and Tax Law Procedure	Economic-Financial Police Duties
Criminal and Criminal Procedure Law	Information Technology
Elements of Criminal Military Law and Procedure	English
EC and International Law Elements	Practical on-the-job training
Information Technology	
English	

For warrant officers and guardsmen of the **sea branch** there is an additional training phase at the Nautical School of Gaeta, aimed at acquiring one of the specializations in this specific area of employment (pilot with command qualification, pilot, technical engineer, naval engineer, electronic communications and reconnaissance systems technician, systems operator, scuba diver).

As a common factor, in the light of the Corps' growing international commitment, the study of the English language has become a key element in each training curriculum of the Guardia di Finanza's Training Institutes.

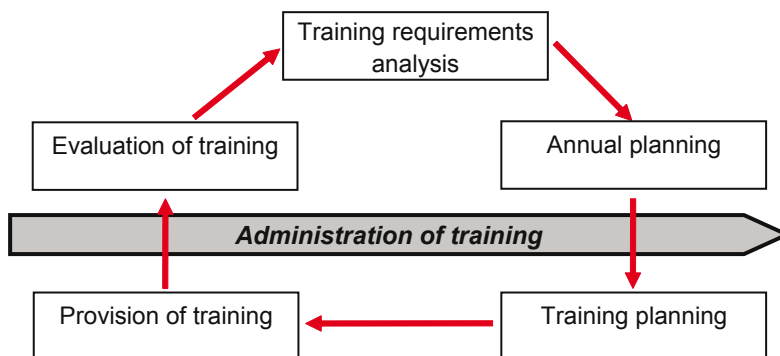
3.2. Post training

The training of Guardia di Finanza personnel does not end with the basic training, but it continues throughout the entire career in relation with the complex institutional commitments and it also takes into account the aptitude and vocation of each member. Indeed,

considering the incessant evolution of the legal framework regulating the social-economic scenario, it is necessary to have a “continuous training” (so-called *lifelong learning*) for the constant updating of staff in the numerous operational areas.

The *post* training **courses** can be distinguished as follows:

- **centralized**, conducted at the Tax Police School in Ostia, the Specialization Training Center in Orvieto, the Alpine School of Predazzo and the Aero-Naval Specialization Center in Gaeta and other public and private entities;
 - **peripheral**, on the premises of the Regional Commands or equivalent structures.
- The working process is based – in the logic of a strategic planning, programming and management control – on a circular structure centered on the following activities:
- training requirements analysis;
 - annual planning;
 - training scheduling;
 - provision of training;
 - evaluation of training.



The process starts according to a pre-established calendar of events, when the peripheral units report their training needs, while the General Headquarters, which is the top body of the Institution, assesses the needs at the central level.

The result is the completion of the “**Annual training plan**” which, in brief, includes a list of the courses approved in the relevant year. Of course the volume of courses is linked to the financial resources available.

This is how the informational, refresher, training, specialization and qualification courses are planned at the following training institutes of the Guardia di Finanza, tasked with *post* training:

- the **Tax Police School**, located in Lido di Ostia (Rome), represents the training pole of excellence responsible for maintaining and updating the professional skills of the Corps' members in the field of economic and financial police as well as the area of foreign languages;
- the **Specialization Training Center of Orvieto**, charged with specialist training in the fields of defense and security, also training the members of the Corps to be deployed to foreign countries in international peacekeeping and stabilization missions;
- the **Alpine School** of Predazzo, which is the training center tasked with basic and advanced training of the members of the Guardia di Finanza Alpine Rescue service;
- the **Aero-naval Specialization Center** of Gaeta, which is in charge of the planning and organization of the *post* training activity for the aero-naval branch.

For the **year 2010**, the total number of courses has been 553, with a 20% increase compared to 2009 e and over 55% compared to 2008.

Thanks to modern distance training techniques, such as *e-learning*, it has been possible to almost double the total number of trainees in the last 3 years, going from 20,121 students in 2008 and 30,408 in 2009, to 39,096 students in the current year.

Considering the actual strength of the Guardia di Finanza, over 60% of its members have received training in 2010.

For some years now *on line* courses are steadily becoming an integral part of the Corps' training system, following the success of the specific **GdiF e-learning** project.

The adoption of *e-learning* allows on the one hand the "home delivery" of training courses to a wide number of students and considerable scale savings, and on the other to render the training system extremely flexible and adaptable.

In this regard, it should be noted that *e-learning* fulfills a role which is supplementary to traditional training, as it allows to standardize the students' knowledge of notions and leaves for the classroom to examine in depth the most multifaceted issues and to study the most complex cases experienced during the actual operations in the field.

Both the number of *on line* courses and the number of students have gradually increased from 2008 (19 courses planned for a total of 18,950 students), year in which for the first time this teaching method was used systematically, to date (28 scheduled courses for 30,431 overall trainees).

The **main training initiatives** recently developed are:

1. the training projects:
 - a. “**economic financial investigator**”, is a title awarded to a large number of agents to be employed in the various areas of jurisdiction of economic and financial police;
 - b. “**area experts**”, who, accurately selected, ensure the presence of inspectors adequately prepared to operate in particularly sensitive sectors requiring exceptional investigations.
 1. The ordinary qualification courses, held at the Tax Police School, include training in blended learning mode, alternating 3 months of residential lessons, divided in 3 sessions of 4 weeks each, with periods of training on the job and e-learning courses at the unit of origin.
2. The introduction, since 2009, of courses for **members willing to serve in international missions** (“*ready to employ*”). The relevant qualification course includes:
 - a. a 3 week course at the Tax Police school to learn the basic theoretical notions that are required to operate in an international context;
 - b. a 2 week technical-military training course at the Specialization Training Center.

Subsequently, if they are selected for deployment in an international mission, they must attend a further 2 week course – one week at each one of the mentioned institutes – to learn the basic information about the geo-political area of reference. In the current year, a special *e-learning* course has been planned to improve knowledge of the English language of the staff concerned.
3. The development of the **Community project EUDEFI – European Union Delivering Excellence in Financial Investigation**, funded by the European Commission, for the creation of a handbook on “financial investigations” in the European context, in preparation

of the subsequent provision of specific training activities for the operators of the sector that are present in 27 Countries of the European Union;

4. **Language training**, also through the funding provided by the European Commission under project “BABEL” – this year will be the third and last year of implementation – in order to foster the development of international cooperation among law enforcement officers. In this context, there will be 5 week intensive courses at the Tax Police School, 3 week study trips to London and *e-learning* courses for an overall number of over 6,000 agents each year, from the Guardia di Finanza, as well as from the police forces of Poland, Romania and the Czech Republic.

A new EC funding request is underway for a new project named “LOGOS” to reiterate the successful experience in this sector;

5. the project “**Computer forensics and data analysis**”, co-funded by the European Commission – OLAF and started in the month of July of the current year, with the purpose of establishing qualified investigation units in the field of operational information technology, capable of:
 - a. providing technical support to investigations for the gathering of evidence from IT systems (computer e network forensics);
 - b. professionally conducting the processing, integration and analysis of the data (data analysis) acquired during the activities;
6. the **seminars on “victimology”**, in order to implement the management methods for relations with the crime victims being aware of the related issues;
7. **initiatives aimed at improving the organizational atmosphere of our work places**, among which there are:
 - a. courses in the field of *new public management* and on *leadership* as well as institutional communication;
 - b. seminars entitled “Survey of social phenomena and implications in the Guardia di Finanza”, held by Psychologist Officers of the Corps.

Indeed, this training reflects the **international commitment of the Corps** in the field of training cooperation, in which the Guardia di

Finanza has made available to other countries its wealth of knowledge and experience.

Members of the Corps are deployed to international missions in Afghanistan, Kosovo, Albania and Libya, in order to assist in establishing customs and border police services in those countries.

Furthermore, especially noteworthy is the memorandum of understanding signed with the European Agency for the management of the operational cooperation at the external borders of the Member States of the European Union (FRONTEX Agency), which has included the Aero-naval Specialization Center of Gaeta among the *Academies* of reference. The Center holds a number of courses for many officials/officers of the European Union (Germany, Greece, Cyprus, Malta...) in the field of aero-naval cooperation, in addition to sea and mountain survival.

3.3 High qualification

As concerns the Corps' officers, high professional qualification is the one aimed at forming the managerial cadres of the Institution.

In 2010, the number of participants in such educational activities carried out both within Guardia di Finanza and at an inter-forces level, is 156.

In this context, the Corps organizes every year the following courses:

- the **Professional qualification course for captains** slated for advancement to the rank of major, which is held at the Tax Police School of Lido di Ostia, for a class of about 100 officers.

The training goals of the educational activity, lasting approximately two months, consist in the enrichment and updating, at a crucial career point, on the one hand of the competences already in the possession of the officers and, on the other, the managerial, organizational capabilities, as well as in the development of managerial skills. The main subjects on which the course is centered are summarized in table I.

Tab. I

SUBJECT AREA	CLASSES
Analysis of the domestic and international socio-economic scenario	Science of economy and public finance
Competences on the functioning of the internal context	Staff management
	“Intelligence” analysis and operational context
Technical - professional skills	Tax law
	Accounting and Budget
	Company law
	Criminal law of economy and business
Managerial skills and behavioral capabilities	Organizational Analysis
	Resource planning and monitoring
	Communication

- **the Tax Police Superior Course**, lasting two years at the Tax Police School, which may be attended through a specific competitive examination, based on qualifications and tests.

The course is structured in such a way as to enable:

- to reach a high level of specialization in legal and economic disciplines, with particular regard to the taxation and economic-financial sectors;
- acquire and refine senior executive qualities.

The curriculum (see table L) pursues the following objectives:

- in the first year, standardize and enhance the legal, economic and professional knowledge of participants, who often have a different service background;
- in the second year, elaborate on issues having a more managerial and international character.

Table L

SUBJECT AREA	CLASSES
Basic skills	Science of Economy and Public Finance
	European Union Law and Institutions
	Morphology of the Italian economic system and strategies of public intervention in the economy
	Institutes of applied administrative law and litigation profiles
	International economic and financial policy
	Foreign language
Managerial skills	Project management techniques and tools
	Change and Project management
Organizational behaviors	Senior management
	Organization and management of human resources
	Negotiation and <i>peace building</i> techniques
	Theory and technique of public communication
Professional skills	Financial tools. Assessment, technical and operational aspects
	Criminal law in economics
	Control of public expenditure
	Domestic taxation law
	Economic and financial police: investigative activities, techniques and instruments of intervention
	International taxation law
	EC and supranational taxation and policy
	Payment systems and instruments
	Judicial police and attacking the assets of organized crime

The training cycle is completed by an intensive English course which in turn is developed in two stages: the first at the Tax Police School, under the expert guidance of teachers who are native speakers, and the second in the United Kingdom, of the length of three weeks.

Also attended are:

- a “Financial markets law” course at the University of Milan;
- a II level master in “Tax law of the enterprise” at the Bocconi University of Milan.

Having passed the course constitutes a preferential qualification for the purposes of advancing to the higher ranks also as compared with other high qualification courses or qualifications of a different nature.

The “qualified” officer is therefore destined to be employed in senior executive or command duties, which are especially demanding and sensitive, within the Corps.

The **high qualification activities carried out at inter-forces training Institutes**, which see the participation of service members of the Corps along with personnel of the Armed Forces and of other Police Forces, are:

- the **Inter-forces General Staff Superior Course (I.S.S.M.I.)**, of a year’s length, which may be attended through a competitive examination based on qualifications and tests, held at the High Studies for the Defense Center.

The training process and the educational method for the course in question are focused on an interactive system with *tutorships* and external teachers. The system is aimed at promoting the active involvement and self learning skills of the individual participants, developing and building on their knowledge and experiences, through a series of lessons, conferences and individual and collegial work;

- the **High Formation Course** at the Specialization School for the Police Forces, lasting approximately one year.

The activity in question is aimed at improving the technical professional preparation of the officers of Police Forces and, at the same time, refining the decision-making skills of the participants through the acquisition of common methodologies and techniques in the sectors of organization, development and coordination;

- the **Study Sessions of the High Defense Studies Institute**, organized at the High Studies for the Defense Center.

These initiatives center on the analysis of military policy, on the organization of the Armed Forces and on the study of security and defense strategies, with the aim of:

- updating the professional and cultural *background* of high-ranking officers and civilian Defense executives in the field of defense and security.

- attend to the diffusion of military knowledge and promote cultural and scientific osmosis with the major institutional and productive realities of the Country.

Every study session lasts approximately nine months and generally includes:

- an initial phase aimed at ensuring a first basic knowledge level, common to all participants, on issues of policy and international relations;
- a subsequent phase focusing and elaborating on issues of special relevance and interest.

4. CAREER PROFILES

Personnel selection for the purposes of career progression meets not only the need to satisfy institutional and functional requirements of single organizations but also the interest of every member to see a proper enhancement of his or her professional and juridical status, considering that this assessment generates significant consequences related to the professional expectations of the individuals and their working life within the Administration, their employment profile (with manifest effects also on family issues), the self-esteem of the individuals, the consideration by their collaborators, and, ultimately, their motivation.

In the advancement process converge, basically, a series of public and private interests which the relevant proceedings take into consideration, comparing the requirements of individuals to achieve the next rank/title in their respective career with the interest of the Public Administration to promote the best personnel to be destined for the highest functions. While pondering the various interests may lead to different solutions, prominence cannot but be accorded to public interest, which is aimed at placing in the highest ranks and, consequently, in the offices of greatest responsibility, the staff which most likely guarantees to fulfill at best the superior functions.

The assessment system for Guardia di finanza personnel and, therefore, for career progression is heavily influenced by the fact of being a police Corps with a military structure, in which, along the lines of the strictly military model, assessment is strongly focused on man, intended in the breadth of the qualities which characterize him: physical, cultural, moral, character and professional. As a common factor, for all categories of personnel the assessment

draws the elements required to operate correct selections for advancement purposes from the personal file of each Guardia di Finanza service member, and in particular from the performance record (overall assessments formulated by the direct hierarchical Superiors), outlining the qualities, positive and negative, possessed by the service member and his or her performance in the course of service. The importance of this documentation is evident, being the main formal record on which the judgment is based for career development of the staff and, also, for their assignment.

4.1 Officers

To comprehend the different methods of career progression, first of all it is necessary to state beforehand that the officers' category is structured in the following hierarchical ranks:

- **MANAGERS**
 - Lieutenant General
 - Major General
 - Brigadier General
 - Colonel

- **EXECUTIVES**
 - Lieutenant Colonel
 - Major
 - Captain
 - Lieutenant
 - Second Lieutenant.

Following the reform of 2001, the regulations for advancement have been fully reorganized, through a reforming action characterized by the introduction of significant innovations mainly centered on:

- setting minimum tenures in the various ranks;
- the placement in advancement quota according to homogenous groups basically corresponding to the Academy Classes;
- having, in the advancements by merit, a fixed annual number of promotions. This is unlike the rules set forth for advancements by seniority, in relation to which promotions are given based on the sole minimum tenures in the rank prescribed (and no longer on the staff vacancies that occurred in the higher rank);
- the possibility to have access to managerial ranks 22 years from the appointment as officer.

In defining the new overall "architecture", the underlying philosophy

of the “standardized advancement system, by annual impulse from below” has been confirmed, that is to say a career progression which takes place according to predetermined timelines as well as, in the case of promotion by merit, on the basis of a preset number of promotions, irrespective, in general, of any staff vacancies occurring in the higher ranks.

The need to have staff vacancies available in order to access the higher ranks has been remedied through the various mechanisms introduced by the new system, including, as a priority, that of maximum replenishment of muster-rolls, on the basis of which the number of annual recruitments may not exceed, for inclusion in the list of permanent staff, the existing vacancies in the overall established strength of junior officers.

In practice, following the inclusion in specific quotas, in order to be evaluated for promotion, each officer must meet specific requirements provided for by law, i.e. “(objective) requirements for assessment” and “(subjective) requirements for advancement”.

From an objective standpoint, in order to be admitted to the advancement assessment, the officer must indeed meet the following requirements:

- having achieved the minimum years of tenure indicated for each rank;
- having performed the minimum required periods of command, of specific attributions, of service and of sea duty;
- having obtained the qualifications and having passed any established tests and courses.

Therefore, e.g. a captain of the normal roll – to be admitted to assessment for the rank of major - must:

- have completed at least seven years of tenure in the rank;
- have performed a minimum period of four years in command, of which at least two served in a territorial command.

Once the possession of the objective requirements has been verified, officers may be judged essentially according to two assessment criteria:

- **by seniority;**
- **by merit.**

Also contemplated is a form of promotion for exceptional merits, to which completely peculiar and extraordinary rules are applied.

All scrutiny [assessment] operations are carried out by appropriate boards including the highest managers of the Administration.

In particular:

- the **Superior Commission on advancement** decides in respect of officers of rank equal or higher than lieutenant colonel (composed of the Commanding General, who presides over it, and by the Lieutenant Generals);
- the **Ordinary Commission on advancement** is entrusted with evaluating the officers having ranks from second lieutenant to major (it comprises the Deputy Commander, who presides over it, the seven major generals with the most muster-roll seniority in command within the Corps and by the colonel with the most seniority in command).

For both advancement by seniority and by merit, the competent Commission, on the basis of the elements resulting from the performance and muster-roll records of the officer:

- formulates the **suitability judgment**;
- awards a **merit score** in the case of advancement by merit.

For the purposes of the suitability judgment, the “**subjective requirements for advancement**” is emphasized having the primary function of allowing the identification of officers suitable to reach the higher rank and, consequently, to take on the more important tasks attached to it.

In this connection, in order to be promoted to the higher rank, the officer is required to possess “*the physical, moral, character, intellectual, cultural, professional requirements necessary to well perform the duties of the new rank*”, considering, to this end, that

“having well discharged the duties of one’s own rank is an indispensable, yet not in itself sufficient, condition to advance to the higher rank”.

For advancement to the ranks of general – forming the top positions of military career and, as such, entrusted with discharging duties of high command, coordination and guidance – the aforementioned requirements must be possessed “eminently”.

Each assessment has to take into account the entire career history of the officer under assessment and not just the office held at the time of the scrutiny.

Conversely, a reasonable indication of non-suitability for advancement is having prevalently obtained, in the rank held, final qualifications of “in the average” for advancement up to colonel and of “higher than the average” for the ranks of general, as well as particularly negative judgments contained in the performance record in respect of one or more requirements among the moral, character and professional ones that are deemed necessary to well perform the duties of the higher rank.

In the procedure by merit, after the suitability judgment is delivered, a merit score is awarded on the basis of the following “homogeneous quality categories”:

- moral, character and physical qualities;
- commendations and professional qualities demonstrated during the career, especially in the rank held, with particular regard to fulfilling the task of commander;
- intellectual and cultural qualities, including the results of courses, exams and tests;
- aptitude to take on assignments in the higher rank, with specific reference to the sectors of employment that are of particular interest to the Administration.

In examining the professional qualities, adequate consideration must be given to the “motivation to work”, as symptomatic expression of an interest in achieving the organizational objectives.

Furthermore, in evaluating senior and general officers, special importance is to be attached to the assignments which entail remarkable professional abilities and a high level of independence and responsibility, without prejudice to the fact that the relevance of the same does not, in itself, ascribe abilities and aptitudes, the actual presence of which must always be determined on the basis of one's performance and achievements.

Finally, as for the aptitude to take on assignments in the higher rank, taking into account the duties performed and the specific aptitudes and versatility shown in connection with the various assignment situations, this assessment requires an abstraction process through which to establish – starting from the aforementioned elements – the lower or higher degree of suitability to perform duties of a higher level.

It is therefore a prognostic assessment of the single officers, aimed at establishing their characteristics, abilities and aptitudes for the purposes of inferring adequate indications of the capacity to progress towards tasks demanding greater effort and responsibility.

In conclusion, such an assessment process, extremely complex and delicate, is not by chance entrusted to bodies which provide appropriate guarantees of objectivity, whose fairness and equanimity of judgment is assured both by the collegial nature of the activity carried out and by the competence and experience of its components.

The assessment of such qualities - in point of law – is done through a scrutiny based on the evaluation of the “absolute merits” of the officers being assessed, that is to say on a judgment aimed at appraising the qualities and abilities of the officer in relation to the higher rank *uti singuli*, as if, that is, he were the only one slated for advancement, excluding any comparison with the other scrutinized officers. This is in consideration of the fact that the officers may be employed in the most heterogeneous tasks (operational, logistic, technical, administrative, legal, in specialized sectors, *etc.*), that are often not comparable with one another. In such a procedure, devoid of any direct comparison between the merits of the scrutinized officers, the final classification list merely reflects the merit position of the assessed officers, as an automatic consequence of the single, independent judgments on the qualities of each candidate. Only in this last moment there is a comparative relation among the assessed officers, as a summation of the various individual stages of the evaluation.

Once the classification list is drawn up, only the officers ranking in the positions equal to the number of annually established promotions are eventually promoted. A strong selection is made especially with regard to the managerial ranks.

It is, therefore, a complex mechanism due to the sensitivity and importance of the “stakes” which, especially with regard to the configuration of the military career, entails very frequent officer assessment procedures: as many as eight times – on average approximately one every five years on active duty – for those who go through the entire “hierarchical scale”, from the rank of second lieutenant to that of lieutenant general.

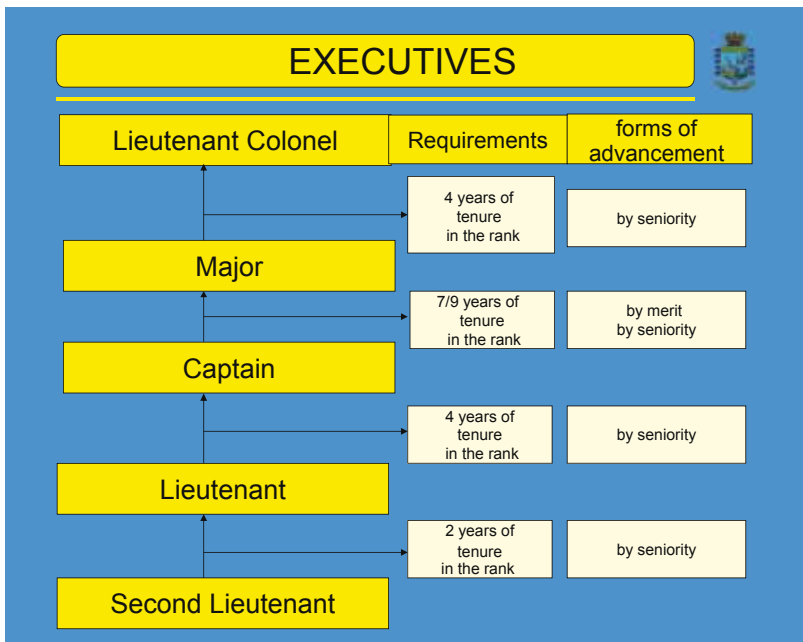
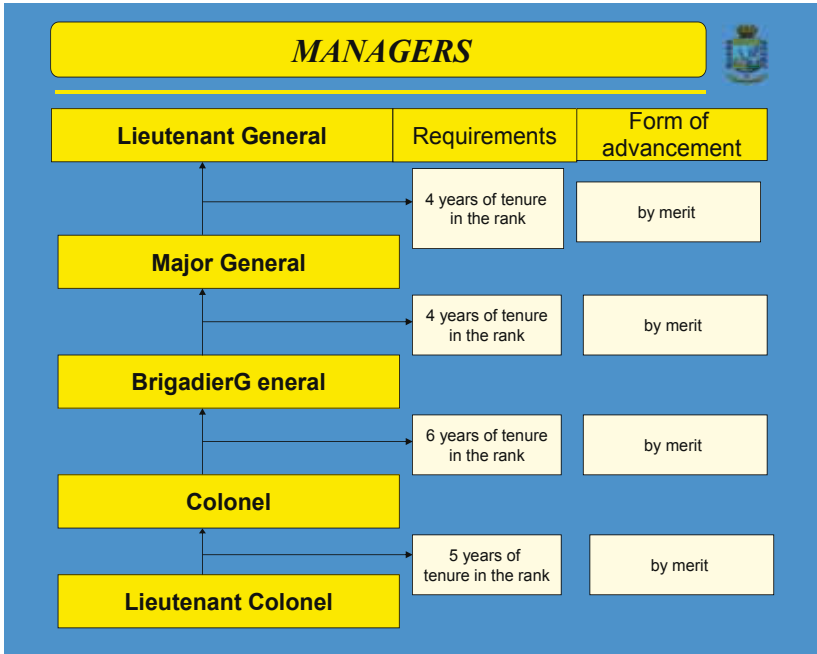
The following tables show the trend in the number of officers under assessment as well as the annual promotions for the ranks by merit:

<i>Advancement by merit</i>						
	2007	2008	2009	2010	2011	N. of prom.
Lt. Gen.	7	6	7	9	11	½
Brig. Gen.	26	30	30	34	34	¾
Col.	49	51	64	78	92	7/8
Lt. Col.	321	348	354	368	374	29
SCA Total	403	435	455	489	511	
Capt.	144	115	145	133	120	80%
Total	547	550	600	622	631	

<i>Advancement by seniority</i>						
	2007	2008	2009	2010	2011	suitability
Maj.	72	75	90	115	122	
Capt.	9	10	10	9	6	
Lt.	90	91	115	134	128	
2 nd Lt.	59	82	85	109	110	
OCA Total	230	258	300	367	366	

Grand total	777	808	900	989	997	
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The following tables summarize the career progression of officers:



4.2. Inspectors

The career is set out in the following ranks:

- ✓ **senior warrant officer;**
- ✓ **chief warrant officer;**
- ✓ **ordinary warrant officer;**
- ✓ **warrant officer.**

Advancement to the ranks of **ordinary warrant officer and chief warrant officer** takes place by **seniority**, after **two** and **seven** years of tenure in the rank.

The staff concerned is included in **specific quotas** to undergo assessment by an appropriate **Commission, called Permanent Advancement Commission**, which **expresses the judgment of suitability or not suitability**.

The **rank of senior warrant officer** is the **only** rank from non-executive and non-manager rolls **for which a specific established strength is laid down, equal to 11,500 units**.

The number of promotions to the rank in question **may not exceed annually the limit of the thirtieth part of the established strength** prescribed for the Inspectors Roll (23,602), namely **787 units**.

The methods of advancement to the rank of **senior warrant officer** presents a number of peculiarities, given that **a dual channel of career progression** is provided for.

In particular, of the promotions which may be annually granted:

- **70%** is attributed **through an advancement procedure “by merit”**, **after 8 years** of tenure in the rank of chief warrant officer.

Concerned staff is included in appropriate quotas to undergo assessment by the Permanent Advancement Commission, which, upon expressing the suitability judgment, confers a merit score.

The inspectors successfully placed on the classification list are promoted;

- **30%** through the advancement procedure **“by merit through tests”**, to which are admitted, upon application, chief warrant officers who have completed **at least 4 years of tenure in the**

rank and which includes the carrying out of a written test and an evaluation of qualifications subsequent to passing the written test.

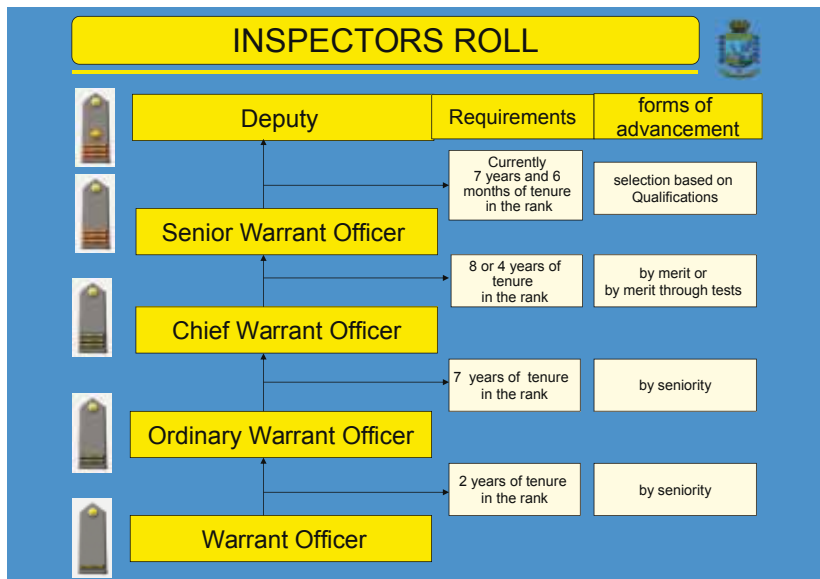
Selection based on “qualifications” for the awarding of the “deputy” title takes place exclusively for the conferment of the deputy title to senior warrant officers.

The title is conferred following a **selection** by an appropriate commission, **on the basis of the service record** and of the **qualifications achieved by the inspectors under assessment**.

The criteria and methods for carrying out the selection, as well as **the identification of the qualifications** to be evaluated is **prescribed by resolution** of the Commanding General.

The number of titles conferred may not exceed a twentieth of the established strength laid down for the rank of senior warrant officer, equal to **575 titles**.

The following table summarizes the career progression of inspectors:



4.3. Non-Commissioned Officers

The career is set out in the following ranks:

- **chief staff sergeant;**
- **staff sergeant;**
- **deputy staff sergeant.**

Advancement “**by seniority**” to the rank of staff sergeant takes place after **seven years of tenure in the rank**.

Entitled personnel is included in **specific quotas** to undergo the assessment of the **Permanent Advancement Commission**, which **delivers a suitability or non-suitability judgment**.

The suitable service members are promoted as from the day following the one of completion of the period of tenure in the rank.

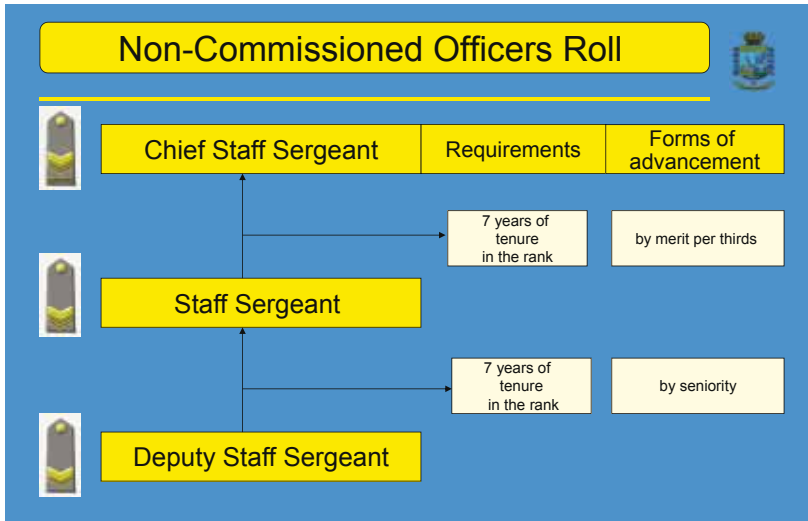
Advancement to the rank of chief staff sergeant concern Staff sergeants that have completed 7 years in the rank who are included in specific quotas to undergo assessment, by merit, by the Permanent advancement commission.

On the basis of the score awarded, Staff Sergeants included in the first third are entered in the advancement cadres and promoted with open muster-roll as from the day following the one of completion of the minimum period of tenure in the rank.

For the remaining Staff Sergeants, a further assessment, again “by merit”, is undertaken the following year.

Of these, **the first half of the classification list** is promoted, whilst **the second half**, upon being included anew in the quota the further year following, is promoted if judged suitable (the latter promotion is, thus, conferred by seniority, **with a delay of two years compared with the minimum time requirement**).

The following table summarizes the career progression of non-commissioned officers:



4.4. Lance-Corporals and Guardsmen Roll

The lance-corporals and guardsmen roll is set out in the following four hierarchical ranks:

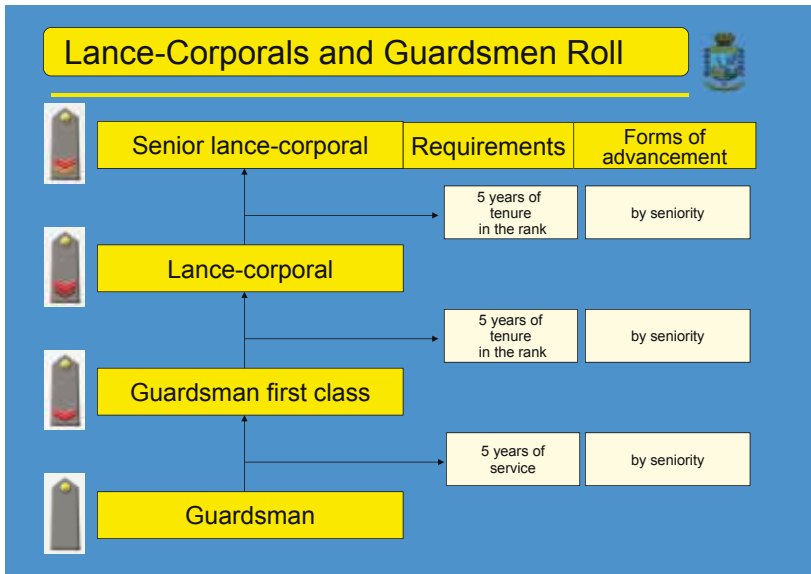
- senior lance-corporal;
- lance-corporal;
- guardsman first class;
- guardsman.

Advancement to the various ranks of the “lance corporals and guardsmen” roll **takes place by seniority** at the completion of the minimum period of **tenure in the rank (five years)**, except for the rank of **guardsman first class** for which it is required to complete **five years of service** as from the date of enlistment.

It takes place through the formulation of **suitability or non-suitability judgments** delivered by the **Permanent Advancement Commission**.

Staff pronounced suitable is promoted.

In the following table is summarized the career progression of Lance-Corporals and Guardsmen:



TOPIC 3

**“EMERGING ASPECTS TO BE CONSIDERED IN THE
MERCER OF COMPETENCIES”**

EMERGING ASPECTS TO BE CONSIDERED IN THE MERGER OF COMPETENCIES

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***Contents:** Summary.- 1. Introduction.- 2. Historical background.- 3. Preparatory measures for the merger of the tax administration (1999/2004).- 4. Receita Federal do Brasil (RFB) was established by presidential decree 258, dated 2005 and was in effect for a short period .- 5. Presidential decree 258 ceases to be in effect.-6. Paving the way for the merger – from december 2005 to april 2007.- 7. RFB implementation.-8. Merger progress.- 9. Lessons learned.- 10. Status, outlook and challenges of the brazilian Federal Tax Administration merger .- 11. Conclusion – restating the merger goals*

SUMMARY

The Secretaria da Receita Federal do Brasil is a specific, single entity, which falls directly under the Brazilian Federal Executive branch and works under the direct authority of the Treasury Department. It was created on May 2nd, 2007, as set out in Law Nr. 11.457 of that same year, as a result of merging the Secretaria da Receita Federal (SRF, or Federal Revenue Department) and the Secretaria da Receita Previdenciária (SRP, or Social Security Department).

The creation of Secretaria da Receita Federal do Brasil (RFB) in 2007 was the culmination of the protracted historical process of merging the Brazilian Central Tax Administration. It is considered to be the largest unifying process ever undertaken by the Brazilian Public Administration.

At the time, the organizational change not only meant that the Brazilian Tax Administration shifted to a functional model, but it brought together over 32 thousand civil servants from two government entities with a wealth of management experience and rather distinct organizational

cultures. For many reasons beyond the sheer extent of the challenge itself, new RFB structuring arrangements required accurate and critical work, without which the result on tax collection in the country could have been unimaginable.

Creation of the RFB was aimed at rearranging the Federal Tax Administration, concentrating in a single entity tax administration responsibility at the Federal level, in order to promote efficiency gains that did in fact lead to increased tax and contribution collection, including social security contributions, without widening the tax base or raising tax rates. Furthermore, it permits simplification of tax legislation, unified procedures and a reduced or streamlined compliance process for associated tax obligations, resulting in lower costs to the taxpayer.

These are indeed the three large-scale objectives that set the foundations for the Brazilian Central Tax Administration merger and, thus, the implementation of this new structure with broader responsibilities integrated in the Secretaria da Receita Federal do Brasil.

The present paper provides an overview of the process, including historical facts and aspects considered by the organization as critical for mergers of responsibilities of such proportions.

Throughout all the years of planning, preparation and implementation, the RFB acquired vast experience in taking on what was seen as a true “battle” for modernization of the Tax Administration. Now that the new entity has been formed, the fight is on for concrete results, achieving hoped-for tax fairness under the maxim that if everyone pays their rightful taxes, everyone ultimately pays less.

1. INTRODUCTION

Law 11.457, dated March 16th 2007, was aimed at the merger of the Brazilian Central Tax Administration. The law gave Secretaria da Receita Federal (SRF), from then on known as Secretaria da Receita Federal do Brasil (RFB), responsibilities attributed to it under the current legislation as well as responsibility for planning, undertaking, monitoring and evaluating activities relating to calculating, checking and collecting social security contributions. Until that time, these activities had been under the remit of Secretaria da Receita Previdenciária (SRP) under the Social Security Ministry.

The merger between SRF and SRP was an unprecedented undertaking by the Brazilian Federal Tax Administration, both in terms of its

enormous complexity and dimensions. The 30-thousand plus RFB civil servants were all affected by the merger to a lesser or greater degree. Job processes and computer systems in organizational areas had to be redefined for the harmonization and unifying of similar activities carried out differently in the two departments prior to the merger.

In the face of such complexity, the National Transition Coordinating Unit was appointed to facilitate the merger - through advising top management, informing and monitoring organizational areas and strengthening relations between them, as well as encouraging these areas to plan and implement unifying actions. Its role was temporary in nature, like any project, with a beginning, middle and end.

The merger is an ongoing process and a collective undertaking. Many, many unifying actions are developed by the different organizational areas with thousands of people involved.

1.1. Background to the Merger

The Brazilian Central Tax Administration merger was based on the functional model, in which a single body has responsibility for activities relating to calculating, checking and collecting all taxes and social security contributions, including internal taxes, duties (customs) and social security contributions.

The functional model is hardly new internationally, having been taken up in various countries, including Australia, New Zealand, Argentina, Bulgaria, Croatia, Finland, Hungary, Norway, Russia, Serbia and the United Kingdom, some many years ago and successfully.

Until then, the Brazilian model had been based on types of tax, with parallel structures and an entity responsible for social security contributions collection and checks and another for all other taxes. There are also other tax administration models, which are structured according to types of taxpayers, with separate departments for large taxpayers, investors, small enterprises and other segments.

The Brazilian Central Tax Administration merger enhances the administrative machine and is in line with the constitutional provision contained in Article 37, XII, of the 1988 Constitution, on the integrated work of the Tax Administrations.

Thus, it may be said that a Tax Administration merger is a modern concept and a world trend. In Brazil, it was aimed at the need to heighten the efficiency of the administrative machine, by reorganizing the Tax

Administration, streamlining associated obligations and boosting tax collection, without widening the tax base or increasing tax rates.

1.2. Transition and Change

In the public or private sector, a unifying process or merger, or other similar technical, legal denomination, will of necessity imply change, which, in turn, requires undergoing a period of transition.

A transition is any process of adapting an organization to new realities that come about, either voluntarily or compulsorily, in its internal or external environment.

As a result of technological innovation, and in particular of Information Technology, and the rapid pace of current world developments, both people and (social, business, etc.) organizations are now living in a constantly changing environment.

In an institutional context, a process of change may involve anything from a simple change in working routine to a complete restructuring of the organization.

In administrative terms, a transition requires careful planning and implementation to ensure that the process is conducted with maximum effectiveness, by acknowledging and addressing resistance and culture shocks, and minimizing impacts on the daily lives of people directly or indirectly affected within and outside the organization.

Numerous small or large-scale actions are needed, depending on the complexity, scope and frequency of changes.

From the very beginning, a suitably structured and formal plan must be in place to guide actions, motivate people and allow plan implementation control and monitoring for constant evaluation, correcting the course and redirecting it in response to new facts and scenarios.

2. HISTORICAL BACKGROUND

The process of concentrating Brazilian federal tax collection and control activities in a single body under the Treasury Ministry dates back in time.

Since the creation of Secretaria da Receita Federal (SRF) in 1968, successive events led slowly but effectively to the merger of tax administration.

Although Secretaria da Receita Federal and Secretaria da Receita Previdenciária were merged on May 2nd 2007, leading to the subsequent establishment of Secretaria da Receita Federal do Brasil (RFB), the idea goes back to the 1980s when it was already on the government agenda.

Through the years various regulations were approved, placing a number of departments under the SRF, and the Social Security Ministry was given responsibility for managing social security contributions.

In 1999, the seeds had been sown for the actual Central Tax Administration merger process to begin. The SRF was responsible for all internal and customs tax administration, and social security revenue collection came under Social Security.

Gradual legislative changes took effect, showing that time was ripe and the merger was both inevitable and necessary.

3. PREPARATORY MEASURES FOR THE MERGER OF THE TAX ADMINISTRATION (1999/2004)

3.1 Equal pay for civil service careers

On July 29th 1999, Presidential Decree Nr. 1915 was enacted, as set forth in Decree nº 3.611, dated 2000, providing for the restructuring of civil service careers in the National Treasury Auditing and Social Security Auditing departments.

For the first time, civil servants in those careers were to earn the same basic salary and the same rules relating to career progression and promotion applied to all.

3.2 SRP Creation of the SRP under the Social Security Ministry.

In 2004, the Social Security Ministry was given responsibility for social security revenue collection, supervision, recording and standards. Secretaria da Receita Previdenciária (SRP) was formed that same year.

The creation of SRP marked an important step in developing actions towards collection improvement and efficient checking, in line with international best practices that separate benefit-related activities from collection and control.

The creation of SRP had a secondary aim to provide enabling conditions for the government to implement preparatory measures towards merging Secretaria da Receita Federal and Secretaria da Receita Previdenciária.

Thus, a few months after the SRP was formed, meetings were held to bring together departments directly affected by the merger, including Secretaria da Receita Federal, Procuradoria-Geral da Fazenda Nacional (the Treasury Department's Office of the General Counsel), Secretaria da Receita Previdenciária (the department of social security), Instituto Nacional do Seguro Social INSS (the national social security agency) and Procuradoria Geral Federal PGF (the national attorney-general's office).

The Planning Ministry and the Office of the Chief Staff also took part in these discussions on the restructuring of the Tax Administration.

The way had been paved for the merger.

4. RECEITA FEDERAL DO BRASIL (RFB) WAS ESTABLISHED BY PRESIDENTIAL DECREE 258, DATED 2005 AND WAS IN EFFECT FOR A SHORT PERIOD

Firstly, a brief explanation of the exact meaning of a Brazilian Presidential Decree is in order: a Presidential Decree (*Medida Provisória*) is an action undertaken singly by the President of the Republic that has the force of law, with no involvement on the part of the Legislative branch, which will be called to discuss and approve it at a later date. A Presidential Decree must be urgent and relevant.

Despite having the force of law, a presidential decree is not in fact a law, in the true technical meaning, as no legislative process occurs before it is issued. The Federal state may enact presidential decrees on matters of Administrative Law, provided that it complies with the conditions and limitations set forth in article 62 of the Constitution and other relevant legislation.

Only where it is relevant and urgent may the head of the Executive branch issue a presidential decree, for future discussion and approval by the National Congress. Presidential decrees are in effect for sixty days and may be extended for another sixty days, after which it will no longer be valid unless approved and passed into law by the National Congress.

4.1 Publication of a Presidential Decree

Upon publication of Presidential Decree Nr. 258, Receita Federal do Brasil RFB, formerly Secretaria da Receita Federal, came into existence under the immediate direction of the Treasury Ministry.

It should be mentioned that the change was targeted at merging Federal tax and custom administration activities for achieving effective and optimal use of human resources, with a view to lowering operational costs, process simplification, integration of customer service, control and IT systems, and implementation of other measures for enhanced administrative efficiency to increase tax and contributions collection without broadening the tax base or increasing tax rates.

Furthermore, the change meant simpler taxpayer obligations, taxpayer interaction with a single Federal Tax Administration and improved customer service, allowing for immediate and conclusive resolution of tax issues, time savings and reduced costs.

In view of the scope of the change, it was necessary to take immediate measures, resulting in the basic structure of the merger of the two departments:

4.1.1 Top Official RFB Position

The top official RFB position was created and filled as set forth by a Decree dated August 12th, 2005.

4.1.2 National Transition Coordinator

The National Transition Coordinator was given the task of coordinating and conducting the work of implementing the RFB. In addition to this wide-ranging responsibility, the Transition Coordinator was given the following tasks:

- I. Advise the heads of the tax administration and the social security administration departments on necessary actions and procedures during the Transition;
- II. Liaise with the assistant heads, SRP department directors, coordinators-general and regional superintendents to achieve a faster transition;
- III. Coordinate actions with other units, bodies and agencies of the Executive branch, with a view to taking necessary steps for RFB implementation;

- IV. Receive proposed administrative regulations in either areas;
- V. Monitor any actions by either department relating to RFB implementation.

4.1.3 Work Philosophy of the National Transition Coordinating Unit

From the start of the merger process, the work of the National Transition Coordinating unit focused on three main areas:

- I. Monitoring transition/merger action implementation;
- II. Keeping the organization up to date on matters relating to the transition/ merger process
- III. Coordinating and facilitating the integration and merger between Secretaria da Receita Federal and Secretaria da Receita Previdenciária.

The National Transition Coordinating unit stressed the need for clear communication: it created the IntraRFB (intranet) transition homepage; set up a transition email inbox; enacted and published merger-related progress Transition Bulletins and reports, as well as took part in events of national and international significance.

4.1.4 Transition Network

Based on its understanding of the complexity and magnitude of the merger and recommendations by SRF and SRP Central Unit Coordinating departments, the National Transition Coordinating unit appointed no less than two members at a time to each organizational area unit, with a view to having representation from both the SRF and the SRP. At a later date, the network was extended to include staff from Regional and Local Units.

In addition to the network, a Central Unit Transition Framework was drafted up with direct participation of network representatives.

4.2 Technology Model for Customer Service Unit Integration

In October 2005, the Technology Model was approved for use of ex-SRF unit infrastructure by SRP users. It was extremely important to the whole merger process, in light of the fact that the two departments had different structures, which varied in degree of modernization and technological control. The approved Technology model defined infrastructure, logical data model, data language and modeling standards.

The model enabled integration of 10 taxpayer customer service units and also served as a benchmark for future integrations and mergers.

A test mass consisting of 10 units was used in every region in the country, with very diverse characteristics, to give the RFB an idea of the degree of complexity presented by a technological merger, requiring the integration of a wide variety of structures and systems and entry of information into differently managed databases that were not always compatible.

The development of the new Technology Model was based on studies that permitted changes to be made to the technological infrastructure, enabling former SRP systems to work in the former SRF network, as well as respective users of these systems.

It should be stressed that implementation of this technological solution did not go against or reduce SRF and SRP IT security policy efficiency and effectiveness.

4.3 Planning Seminars

Awareness of the enormity of the challenge ahead led to the realization of the need to hold the RFB National Planning Seminar in October 2005, with a view to discussing the main points of the RFB Business Plan and enabling a participatory process of RFB planning to take place.

Nevertheless, the human factor - people involved in such a critical process with profound repercussions – was not ignored: a seminar on “The Leadership Role in Transitions” was held in Brasilia in November 2005.

This event focused on the role that every strategy administrator should play in the process and permitted reevaluating his/her position as leader during the transition process.

Seminar topics included so-called “cultural traps”, which should be avoided during merger processes.

The seminar represents a watershed moment in the merger process, standing out as a milestone event in raising awareness of all RFB senior government management regarding the merger. Everyone became aware of the fact that, despite their functional similarities, the two bodies differed considerably both organically and culturally and that the merger would call for intensive synergic action from both sides.

Seminar evaluation exposed a clear need to work on the issue of culture integration, People Management and fast and clear Communication across the organization.

Participants agreed that, despite the organizational and cultural specificities of the merged organizations, there were converging objectives, with the staff described as their greatest wealth.

4.4 Measures taken after RFB was established by Presidential Decree 258

- I. Standard disciplinary procedures;
- II. Harmonization of tax compliance certificate expiration dates;
- III. Merge Legal Counsel, Research and Investigation, Disputed Claims, Logistics, People Management and Information Technology departments;
- IV. Developing a Business Plan for the next five years;
- V. Merging the ten customer contact points;
- VI. Integrating the fiscal actions planned by the two departments;
- VII. Integrated auditor training;
- VIII. Harmonized federal tax collection analysis and communication;
- IX. Standardized consultation procedures: clearer, more accurate rules.

5. PRESIDENTIAL DECREE 258 CEASES TO BE IN EFFECT

Without going into the specificities of the Brazilian legislative process, Presidential Decree Nr. 258 was not passed into law and remained in place until November 18th 2005, when it ceased to be in effect, as provided by the constitution.

As a result, over three thousand enacted and published regulations were revoked, although legal situations that occurred during the effective term of the decree were maintained.

6. PAVING THE WAY FOR THE MERGER – FROM DECEMBER 2005 TO APRIL 2007

Although the Presidential decree ceased to be in effect, the Tax Administration merger could not be reversed. As the merger was considered to be of the utmost importance and relevance to the Brazilian State and thus laden with significance for all of society, the Federal government showed its firm intention to go ahead with the merger and submitted a bill in November 2005 to the National Congress with a proposal for the Federal Tax Administration, including

the social security contribution department, to fall within the remit of a single body. An emergency procedure was used to move the bill through Congress.

After a heated clarification process in the House of Representatives and the Federal Senate, countless public hearings, 160 amendments, agreements between National Congress members, the bill moved through all the specific Committees of both Houses and was finally approved on March 19th 2007, on publication of Law 11.457.

Thus the Secretaria da Receita Federal do Brasil irrevocably came into being after much hard work. On that day, a single Brazilian Federal tax administration was created.

7. RFB IMPLEMENTATION

Although Presidential decree Nr. 258 ceased to be in effect at the end of 2005, merger-related efforts continued. Efforts increased in 2007, particularly after the bill conclusively moved through both National Houses of Congress and the project was submitted for Presidential approval.

7.1 Law Nr. 11.457

On March 19th 2007, after approval of the bill, Law Nr. 11.457 was published, regarding the Federal Tax Administration and containing changes to various legal provisions.

The law, which changed the name of Secretaria da Receita Federal to Secretaria da Receita Federal do Brasil and extended the responsibility of that Department to include the management, in a broad sense, of social security contribution collection, provided that the merger would become effective as from May 2nd 2007, at which time a number of immediate measures were taken.

2.2 Organizational Structure

On March 7th 2007, the head of RFB presented staff with the new organizational structure of RFB Central Units during a video conference, in compliance with guidelines on a single process and command structure (that is to say, not set apart from the social security and internal taxes units), contrary to the structure in place in 2005, as well as other requirements.

2.3 Merger Planning and Follow-Up

Selected in 2005 as one of the main guiding requirements for the merger, Planning and Follow-up became critical during this new stage, both more definitively so and on the basis of experiences reaped since those early days.

2.3.1 Transition Plan Development

In 2005, the National Transition Coordinating unit embarked on the process of drafting a Transition Plan, including Sector Plans (to be undertaken by the Central Units). Once concluded, work would then start on the Regional Plans Structure, to be undertaken by Regional Superintendences.

The Transition Plan was structured in such a way as to allow consistency between structure-merging activities scheduled, transparency and monitoring of these activities.

The Plan should establish managerial controls for controlling and monitoring essential procedures within the scope of the project and, consequently, ultimate RFB implementation, as the merger was planned to take place stage by stage, depending on the pace of individual process development/ implementation.

Each General Coordinating unit submitted its own Sector Merger Plan, containing:

- I. Processes in each area;
- II. A Work Plan defining stages/goals to be met/reached for each individual process;
- III. Final deadlines;
- IV. Persons responsible for carrying out the plan

An analysis of the various processes should take into account the definitive merger of the Central Unit and the Decentralized Units.

2.3.2 Draft Merger Plan

In September 2006, when the Law was moving through Congress and the Presidential Decree had ceased to be in effect, the National Transition Coordinating unit submitted a Draft Transition Plan.

Amongst other purposes, the draft was meant as a transition/merger management instrument for providing heightened visibility into planned

actions and formalizing and structuring a specific plan of action for RFB implementation.

The Transition Plan includes 16 sector plans for development and implementation by SRF and SRP Central Units (also taking into account the 2005 Sector Plans) and 10 regional plans, under the responsibility of the Tax Regions, with SRF and SRP participation, thus allowing consistency, transparency and monitoring of merger-related actions planned by all the different areas.

The Draft Transition Plan encompassed two timelines: integration (from the moment of approval to the effective date of the merger law) and merger (after the actual merger).

The Draft Transition Plan approval in 2006 resulted in concrete actions aimed at integrating checking and collection, as well as intensifying IT-related actions.

2.3.3 Merger Planning Process Enhancement

In 2007, once RFB came into existence, the planning process was revised and it became known as the **National Merger Plan**, germinating from the Sector and Regional Plans drafted prior to the merger.

Once the work methodology had been defined, Central and Regional Units conducted critical analyses of these plans and adapted them according to existing methodology.

This allowed 6 groups of related actions to be identified in the various Sector Plans. Such actions took the form of large-scale activities that were interwoven through all the plans.

Closer examination of these large-scale activities showed that it was possible to extract management information and track these actions much more easily than with the methodology used in 2005 and 2006.

The following large-scale activities were identified:

- I. Adapting the Technology – Systems and Infrastructure
- II. Adapting the Legislation
- III. Adapting the Logistics
- IV. Adapting the Organizational Structure
- V. Adapting the People
- VI. Adapting the Procedures

The National Transition/Merger Coordinating unit was also given the task, among its other responsibilities, of monitoring the National Merger Plan, staying in permanent contact with Coordination departments responsible for carrying out the actions, recording these actions, seeking continuous improvement and keeping all the RFB up to date on merger-related issues, in particular the RFB head and the Assistant heads.

2.3.4 Strategic Control Points

The National Merger Plan recorded merger actions that were concluded or begun in 2007. As envisaged during planning, these did not include all actions needed to conclude the merger.

Based on RFB planning methodology changes for 2008-2011, the National Merger Coordinating unit deemed it necessary to identify and record actions from a strategic perspective so that the merger process might move forward consistently along its course with appropriate follow-up.

On examining the 2008-2011 Strategic Planning and Management methodology, it was noted that merger-related actions were watered down under generic-type actions. While this showed that the merger was being taken forward by organizational areas, it also implied a loss of general, integrated visibility of the merger process, especially with regard to a more strategic view of the organization.

Given the risk of a loss of momentum in the merger, caused by a watering down of its actions within the larger RFB context, the General Transition Coordinating unit decided to keep a consolidated record of merger-related strategic lines of actions for appropriate institutional monitoring. In addition, whenever necessary, this record would provide a means of responding to requests for merger-related information by other Public Administration sectors.

To avoid a possible loss of momentum in the merger, a proposal was made in March 2008 whereby the merger process would be monitored according to Strategic Control Points.

Conceptually speaking, Control Points are indicators that, once met, allow a new level of merging to be reached. A control point makes it easier to meet others or may be a basic requirement for meeting others. Once a certain control point has been met, it can be said that the merger has been concluded as far as concerns the aspect covered by that point.

The applied methodology focused on monitoring control points of strategic interest. As a strategic control point almost always covers various organizational areas, it was recommended that monitoring be conducted by the Assistant heads, the second line of command at RFB.

For the purpose of methodology implementation, a Monitoring Table was drawn up for recording, describing and monitoring strategic control points. Consequently, it was developed as a means of following up the status of a given strategic control point and providing progress visibility.

It should be mentioned that control points were based on National Transition Coordinating unit experience throughout the merger process, including the preparatory stage and the period for achieving the three principal merger objectives below:

- I. Administrative reorganization;
- II. Streamlined accessory obligations and subsequent improvements in citizen/taxpayer customer service;
- III. Increased collection rates, without a higher annual tax burden.

The following control points were set:

- I. Harmonized, simplified legislation;
- II. Unified and/or simplified procedures;
- III. Units with staff trained to carry out social security activities;
- IV. Harmonized Staff Legislation;
- V. Up-to-date technology infrastructure;
- VI. Social security system and data migration;
- VII. Unified registers;
- VIII. Unified Tax Survey and tax clearance certificate;
- IX. Data cross checking for automated checks selection/planning;
- X. Physical merger concluded.

8. MERGER PROGRESS

8.1 Progress in Contribution Levying and Collection

In 2007, collection of social security contributions that had been declared but not yet collected from taxpayers became part of the responsibility and routine of the RFB, marking an important step towards a full merger.

Various manuals and training courses were prepared mainly for staff working in areas such as general social security contribution regulations, social security credit collection and construction industry collection.

8.2 Progress In Relation to Checks

As a result of the merger and the Checks planning framework, signs of progress in relation to checks were already visible in 2008. This allowed integrated selection and coordinated planning to take place with Tax Region participation, leading to increased efficiency in checks and, consequently, a heightened sense of risk on the part of the taxpayer.

8.3 Technology-Related Progress

Progress was made on various fronts, in particular regarding adaptation of the Demand Control System (SCD), with a view to meeting the needs of the social security area. SCD is a management and operational instrument for joint use by RFB and Information Technology service providers. It stores information such as requests for information system development and adaptation.

Another highlight was the full merger of checking systems, allowing for social security contributions and other internal taxes to be planned under a single Checking Procedure Mandate.

These changes opened up the possibility of furthering treasury and social security system and procedure integration.

8.4 Progress Related to Legal Counsel

Great challenges were posed by the large volume of proceedings and trials on issues of admissibility that arose after the merger, procedural and cultural differences, as well as problems relating to the physical work space. Nonetheless, good progress was made thanks to procedural standardization, covering issues ranging from admissibility, opening or ending of proceedings to understandings in the field.

9. LESSONS LEARNED

From the first contacts onwards, aimed at preparing for the Federal Tax Administration merger, much experience has been gained, including numerous extremely valuable lessons that are worthy of note and may serve as examples for future Public Administration mergers or transformations.

Without meaning to exhaust the subject, a number of points deserve consideration:

- I. In-depth knowledge of the soon-to-be merged organizational cultures – the culture shock proved to be one of the most important aspects for consideration, in light of the fact that although the two entities undertook similar work their organizational cultures were markedly different;
- II. Cultural integration should happen quickly and not start only once regulatory decisions have been taken;
- III. Search for synergies between the two organizations – one of the greatest pitfalls is wishing for one to be “absorbed” by the other.
- IV. Awareness that the merger process always includes a measure of inequality – do not refer to it as a merger of equals;
- V. Always attempt to relate the ambitious objectives set for the organization with the strategies and actions needed to reach them;
- VI. Avoid the pitfall of announcing merger completion ahead of time;
- VII. Draw up a clear, well-defined cultural integration plan, without “slipping” during implementation – the plan must be grounded in reality and this requires profound knowledge of the organizations’ cultural traits;
- VIII. Awareness of the fact that many changes affect invisible and intangible aspects, which have a decisive impact on the success of the merger;
- IX. Acknowledge human and cultural challenges faced in this type of process;
- X. Lay emphasis on the transition process as the central theme, given that the process will not occur in a linear manner;
- XI. Develop a balanced plan, without too much tension or formalities;
- XII. Choose a dynamic course of action to reach a goal;
- XIII. Attach due importance to the underlying technical and, above all, political aspects of the merger;
- XIV. Spread the idea that the process is being undertaken by all, not only by the “heads” of the organization;
- XV. Appoint a Transition Coordinating Unit – a single point of input and output for overall project identification and personification;
- XVI. Anticipate rumors: do not wait for a formal procedural conclusion to clarify doubts;
- XVII. Establish permanent and open means of communication with everyone involved;
- XVIII. Do not ignore “tips of icebergs” that may appear along the way: assess and consider potential risks, however harmless they may seem;

- XIX. Pinpoint and talk with key staff during the merger process;
- XX. Designate staff to work full-time on changes required during the merger process;
- XXI. Consider intangible, invisible, subtle aspects;

10. STATUS, OUTLOOK AND CHALLENGES OF THE BRAZILIAN FEDERAL TAX ADMINISTRATION MERGER

10.1 Status

10.1.1 The Physical Merger

The physical unit merger has many important consequences, including lower maintenance costs – after the merger of previous parallel structures with similar purposes - simpler resource and cultural integration process management, training, information and experience exchange, and procedure convergence and merging.

It should be noted that the physical merger greatly benefits the taxpayer in need of personal assistance, as all federal tax-related issues may be addressed at a single point of customer service.

In June 2008, 89% of RFB service units had been physically merged. In May 2009, the cycle was complete and all customer service points had been merged, in light of a need for additional budgetary resources for more complex investments.

10.1.2 The Budget Dimension

Budgetary issues extend beyond RFB management, are a result of adjustments involving all the Federal Government bodies and agencies and have direct impact on the pace of activity, based on investment needs.

One example is SRP equipment and software, which did not meet technical specifications as defined by the IT General Coordinating unit and could not be used to full effect by the RFB network.

Furthermore, the 2009 global crisis created resource constraints, which were overcome in 2010 when full implementation of the technology modernization process was resumed.

Budgetary limitations give cause for concern in the RFB implementation process, as they reduce planned activities in key areas of the organization such as technology, logistics and people management.

10.1.3 The People Dimension

The RFB was formed in May 2007, with a staff of approximately 32 thousand people. Of these, about 9,500 came from the SRP.

With the aim of ensuring a gradual, safe and planned transition, service continuity to citizens and taxpayer customer services, a massive training program was implemented, in order to permit staff to acquire full knowledge of new routines within a short time.

Customer service hours were extended and an intense stimulus program was implemented for taxpayer self-assessment from home. Customer service times were significantly reduced, thanks to the possibility of booking appointments via Internet, online resource availability and differentiated Large Taxpayer customer assistance.

10.1.4 The Systems Dimension

Administrative measures were adopted for technology model adaptation approval, permitted changes to be made to the technological infrastructure, enabling former SRP systems to work in the former SRF network.

This technological solution did not go against or reduce the effectiveness or efficiency of IT security policies and enabled all RFB employees to use social security systems.

Within a technological context, the merging of Internet information is also worth mentioning, resulting in the migration of social security contribution content and services to the RFB site.

From the technological point of view, the difficulty in concluding the merger, anticipated once new databases and systems are built, derives from varying system development standards, which have been undergoing a gradual alignment with the necessary caution to avoid impacts on system availability performance and information access.

10.1.5 Legislation

Due to considerable differences between the legislation that governed former SRP-managed social security contributions and legislation that governed SRF-managed taxes - especially in regard to provisions relating to penalties, late payment charges, offsetting, exemptions, declared credit entries – working groups were formed for the purpose of harmonizing legislation once the Federal Tax Administration merger had taken place.

By way of example, there follows a list of items in which progress was achieved during the merger process:

- I. Deadlines for appeals and unified tribunals;
- II. Adoption of same rules for consultation processes;
- III. Alignment of regulations;
- IV. Harmonization of social security procedures.

6.6.6 Work Processes

Prior to the merger of the Federal Tax Administration, Brazil had a burdensome model with two different, like-structured, non-integrated entities and overlapping activities.

It may be said that, as a rule, Secretaria da Receita Federal and Secretaria da Receita Previdenciária developed the same processes (taxation, registers, levying, collection, checks, legal counsel, logistics, people and technology) and basic sub-processes. Nonetheless, they had different procedures for similar activities. For example, the installment payment sub-process had different rules and flows and was carried out differently in the former departments.

The merger allowed procedure convergence and harmonization, with respective changes to regulations, systems and people activities and a simplified decision-making process, no longer dependent on joint action for procedural changes.

6.6.7 Collection

In the first year after the merger, there was 17.2% nominal federal tax collection growth, without broadening the tax bases or increasing tax rates.

As regards social security contributions, there was an increase in collection in the same period amounting to 16.8%, compared to a total 12.1% wage bill growth rate, in other words, collection grew by far more than the wage bill, from which it can be inferred that merged activities contributed to collection growth, supporting one of the macro-economic goals taken up by the Federal Government when it decided to integrate the Tax Administration into a single body.

6.7 Improvements resulting from the Merger

Taking into account the wide-ranging guidelines provided in the explanatory statement relating to the bill, which resulted in the Federal

Tax Administration merger, it can be said that the latter brought benefits to the Brazilian population, including:

- I. Higher efficiency in Tax Administration;
- II. Administrative Streamlining;
- III. Fewer accessory obligations;
- IV. A better business environment in the country.

Every step taken and yet to come, aimed at merger continuity, provides enhanced services for the citizen/taxpayer, the Administration and the country.

It must be stressed that much has been achieved since the merger. Nevertheless, many opportunities for improvement still exist, and permanent monitoring and attention are needed for process continuity, including:

- I. Unified compliance certificates – with more systems in the single RFB database, more information can be checked, offering a clearer picture of the taxpayer's situation;
- II. A single, synchronized register including states and municipalities – after the tax register merger, a number of procedures involving the citizen will be abolished;
- III. Fully merged customer service – the same physical space, same Internet site, systems with similar interfaces, same service standards, the same merged service server;
- IV. Extending digital certification services to all social security services provided;
- V. Merged collection procedures – current account includes social security contributions and all other taxes;
- VI. Increased employee productivity and continued tax legislation simplification, with further streamlining of accessory obligations;
- VII. Increasing effectiveness of control instruments – less scope for tax fraud, particularly with regard to types of fraud including provision of inconsistent information to the SRF and SRP;
- VIII. Enhanced effectiveness in selecting checking actions – the better the social security contribution and internal tax data available, the better checking actions are carried out, resulting in increased productivity and effectiveness during checking procedures.

6.8 Main Challenges

10.3.1 The People

- I. Recruitment campaigns for RFB staffing, aligning staffing resources to current service demand;
- II. Availability of resources for functional staff training and development;
- III. Cultural integration process continuity;
- IV. Constantly evolving staff legislation, in line with needs and the current organizational situation;

10.3.2 Systems

- I. Gradual migration of all social security systems to the RFB database;
- II. Investing in new system development and optimum maintenance for older system evolution;

10.3.3 Legislation

- I. Feasibility of proposed legislative changes;
- II. Continued harmonization of legislation on social security contributions and other federal taxes;
- III. Continued tax legislation simplification and streamlining of accessory obligations.

10.3.4 Logistics

- I. Improved physical merger and opening of new facilities;
- II. Finalizing appropriate furniture and equipment delivery;
- III. Finalizing the transfer of documentation.

11. CONCLUSION – RESTATING THE MERGER GOALS

Secretaria da Receita Federal do Brasil is a specific, single entity, which falls directly under the Brazilian Federal Executive branch and works under the direct authority of the Treasury Department. It was formed on May 2nd, 2007, as set out in Law Nr. 11.457 of that same year, as result of merging Secretaria da Receita Federal (SRF) and Secretaria da Receita Previdenciária (SRP).

Creation of the RFB was aimed at rearranging the Federal Tax Administration, concentrating in a single entity tax administration responsibility at the Federal level, in order to promote efficiency gains

that did in fact lead to an increase in tax and contribution collection, including social security contributions, without widening the tax base or increasing tax rates. Furthermore, it permits simplification of tax legislation, unified procedures and a reduced or streamlined compliance process for associated tax obligations, resulting in lower costs to the taxpayer.

These are indeed the three large-scale objectives that formed the foundations for the Brazilian Central Tax Administration merger and, thus, for the implementation of this new structure with broader responsibilities integrated in the Secretaria da Receita Federal do Brasil.

In 2010, the Receita Federal do Brasil has, in brief, the following responsibilities:

- I. Administration of internal taxes and import and export duties;
- II. Managing and carrying out activities related to levying, recording, administrative collections, checks, research and checking investigations and collection control;
- III. Managing and implementing customs administration, checking and control services;
- IV. Preventing smuggling and non-payment of duties within its jurisdiction;
- V. Preparation and trial court proceedings related to tax credit assessments and demands to the Federal government;
- VI. Interpretation, application and drawing up of proposals for improved federal tax and customs legislation;
- VII. Assistance with tax and customs policy formulation;
- VIII. Assistance with the Federal government tax revenues and benefits budget;
- IX. Interacting with the citizen through the various service channels, through presence availability or remotely;
- X. Tax education as a civic tool;
- XI. Tax and economic information policy formulation and management;
- XII. Promoting integration with related public and private sector organizations, through agreements on information exchange and tax action methods and techniques, also for the purpose of streamlining and including the possibility of delegating power;
- XIII. Participating in international cooperation and international tax and customs agreement negotiations and implementation;
- XIV. Material, financial, human and technological resource management.

In just over three years since the merger, much has been achieved: integrated customer service units, numerous regulations, as well as consolidated guidance, relating to a wide variety of organizational areas. People, culture and knowledge integration has surpassed the most optimistic expectations, as a result of hundreds of initiatives adopted at different levels and in different places, but the process must be consolidated.

Much has been achieved, yet a lot of work remains to be done. Nevertheless, the RFB is now a reality. There are visible improvements made possible thanks to the merger. Each new step means more progress for Brazil and the organization takes on an increasingly important role, in light of the country's increasing importance on the world stage.

Step by step, we shall continue to build the Institution that has brought and will bring Brazil greater benefits – as a symbol of excellence and efficiency, looking ahead towards the future of the nation.

THE MERGER OF COMPETENCIES AND SOCIETY: COMMUNICATIONS AND RELATIONSHIPS WITH FORMER AND NEW PLAYERS

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***Contents:** Introduction.- 1. Information and taxpayer assistance.-
2. Communications policy: AEAT communications strategic
plan.- 3. Tax education.- 4. Cooperation relation*

INTRODUCTION

The Tax Agency is currently in charge of applying the state and customs tax system, as well as the resources from the other national Public Administrations or the European Union which management is entrusted by law or by agreement. Hence, the Tax Agency is responsible for implementing the tax system in compliance with the constitutional principle which provides that all citizens must contribute towards the payment of public expenditure pursuant to their economic capacity. On the other hand, it does not have competencies for drafting and approving tax regulations, nor in respect to public expenditure, for allocating public resources.

The long-term strategic objective of the Tax Administrations, in general, is to promote taxpayer voluntary compliance with their fiscal obligations through two action areas: on the one hand, the rendering of information and assistance services, to reduce indirect costs associated with compliance with tax obligations and, on the other, the detection and regularization of tax non-compliance through control actions.

1. INFORMATION AND TAXPAYER ASSISTANCE

The State Agency of the Tax Administration (AEAT, in Spanish) is the administrative organization responsible, on behalf and in representation of the state, of managing the state and customs tax system and when stipulated by law or treaty, the management of the resources of other Administrations and National Public Entities or the European Union.

As stated above, the long-term strategic objective is taxpayers' voluntary compliance with the fiscal obligations.

In order to favor voluntary compliance it is indispensable to minimize the indirect fiscal cost resulting from tax obligations. Indirect fiscal pressure is the result of two main causes:

- The regulatory framework of our tax system is in general, extensive, complex and unstable.
- The characteristics of our management model are based on self-assessments, withholdings and the mass supply of information.

Information and assistance services provided to taxpayers by AEAT are classified in two main areas (this differentiation is often subtle), divided into:

- **Tax Information**, which solves doubts concerning compliance with tax obligations.
- **Tax Assistance**, which includes the services facilitated by AEAT to aid compliance with tax obligations.

Tax Information Services

The purpose of the tax information services that the AEAT provides to taxpayers is to communicate tax enforcement standards to taxpayers and solve doubts taxpayers may have when complying with their tax obligations.

Some of the information services that AEAT has implemented are the following:

- **Programa "INFORMA" (Inform Program):** IT program commissioned around mid-1991 with the purpose of technically developing and assisting IT services personal and provide taxpayers quality information, fast, accurately, clearly and

uniformly. Thus allowing the unification of criteria, improve the internal communication of AEAT and directly inform taxpayers.

- **Tax Information Telephone Line:** centralized and independent tax information telephone service of the AEAT Branches and Administrations, its costs are shared and one phone number nationwide. Telephone agents specialized in each subject, from permanent platforms located in Madrid and Barcelona, although during the Rent campaign the service is reinforced, to attend the increase in the demand for information.
- **Collective Information:** through advertising, informational publications (that offer taxpayers, through brochures, posters or CD-ROM, specific tax information that may affect them), information letters (direct communication with taxpayers through non-personal letters or letters, personalized, although collective) and guides and practical manuals (Individual Income Tax, IS, VAT and billing and VAT record books).
- **Internet Tax Information Requests:** As a novelty, since this year tax information requests may be made through the Internet (with electronic DNI or electronic certificate) through AEAT electronic headquarters, and the reply is sent the individual address.
- **Information at offices,** with personalized attention.

Taxpayer Assistance Services

Taxpayer Assistance Services are AEAT's means to assist placed at the disposition of taxpayers to facilitate the voluntary compliance of their obligations. As such, article 85 of the LGT stipulates that the Administration must provide assistance to taxpayers with their returns, self-assessments and tax communications.

- **Individual Income Tax Campaign Assistance:**
 - o **Draft Return and Tax Data:** The draft return is an Individual Income Tax (IRPF, in English) draft proposal drawn by the AEAT based on the personal, family and economic data that the same has available. Printed in white paper and with a format different from the traditional preprinted models or the return obtained with the assistance program, produces the same effects if the return is filed.

- **Prior Appointment Service for IRPF:** the taxpayer agrees to the place, date and time in which it can amend the IRPF draft return or to prepare the IRPF return at the offices of the AEAT or at the collaborating entities. Managed through a centralized application whereby the days and times available are reserved as taxpayers' requests are received.
- **Preparation of Returns:** AEAT proposed draft return is sent, prior request, if the taxpayer has a draft profile and its modification at our office if there is a mistake or if data is missing. Notwithstanding, the traditional preparation of returns at the offices with the PADRE program continues when the returns cannot be drafted first.
- **Assistance Programs:** Due to the complexity of the Spanish tax system, proper return compliance makes advisable the use of IT Assistance Programs, which allow data validation, carry out calculations and even file them directly in magnetic media.

All IT programs developed by AEAT can be unloaded free from the Internet.

Similarly, they may be obtained at the offices of the AEAT.

- **Other Services:**
 - **VRU (Voice Recognition Units):** This services work through an "Automated Voice Recognition Unit" (VRU) which has a recording with a sequence of predetermined questions and messages which registers users' responses and allows taxpayers a varied set of services. Services rendered are:
 - Request identification labels.
 - Request tax data.
 - Request tax certificates.
 - Automatic information on the status of IRPF, VAT and Corporate refunds.
 - Confirm drafts.
 - Prior appointments.

2. COMMUNICATIONS POLICY: AEAT COMMUNICATIONS STRATEGIC PLAN

The 2005 Fraud Prevention Plan established as one of the measures to be carried out by AEAT for the development of actions to reinforce

citizen tax awareness through institutional communications programs which favor voluntary compliance and dissuade fraudulent behaviors. The Plan proposes the development of communications actions that are not only limited to the dissemination of the services rendered by the Tax Agency, but also cover fraud prevention.

This is how the Strategic Communications Plan is implemented at AEAT, and the plan has one coordination agency to establish the general objectives and define action lines, the way in which they are developed and their cost. The final objective is to communicate to public opinion as a reminder the continuity of control and fraud prevention actions, as well as communicate to citizens that comply with their tax obligations the idea that the Tax Agency is at their service with more and better means, to reduce the cost of complying with their formal obligations.

One of the determining factors in the improvement of the degree of compliance with the Mission of the AEAT is society's the level of **tax awareness**, as it directly affects the willingness of those who form part the voluntary compliance and reject tax fraud. Other factors that can also impact and contribute to the formation of collective tax awareness are the perception that people have on the **justice of the tax system** and their degree of satisfaction with tax-financed **public goods and services**. These factors must be taken into account in its communication strategy.

Consequently, the communication strategy of the Tax Agency **aims** to consolidate and strengthen tax awareness in our society, while it facilitates for taxpayers compliance with tax obligations. To achieve this, the strategic lines of the communication policy are defined as well as specific actions, to strengthen relationship channels and contact with citizens, transferring the image of a reliable, modern, innovative, effective, transparent, trustworthy organization, working with professionalism at the service of citizens and society.

Along the same lines of the above statements, the main strategic lines of the communication policy define AEAT as one:

- a) Organization at the service of the citizen by fighting against fraud.
- b) Organization providing services to taxpayers.
- c) Socially responsible organization.
- d) Organization committed to the people that form the same.

The deployment of these lines which cross the communication strategy should be based on the following principles:

- a) Transparent, credible and balanced communication.
- b) Relevant and consistent communications.
- c) Specialized communication taking the recipient into account.
- d) Bi-directional and interactive communication.

3. TAX EDUCATION

The civic-tax education program is especially directed to children and adolescents living nationwide and aims to create a tax awareness in future taxpayers in such a way that they assimilate tax responsibilities as one of the values on which coexistence is organized in a democratic society, by identifying compliance with tax obligations as a civic duty. On the other hand, this program identifies the AEAT with children and adolescents in the fight against drug trafficking, smuggling, the ecological concern and its contribution to the promotion of legal trade - through goods controls at customs and protected animals traffic control -, with the dissemination of customs surveillance actions. Therefore, civic-tax education program is conceived as an education in values and not a mere transmission of technical know-how.

Often taxation is considered as a fact that only affects adults. Therefore, young people shouldn't worry about taxation because it would be totally foreign to the tax fact until they join the economic activity and are obliged to comply with tax obligations. Civic-tax education of the younger citizens would therefore lack sense from this perspective. Now, is it true that young people do not exercise any economic activity? Can you say that young people are totally foreign to the tax facts?

In societies that have reached a certain degree of development and welfare, youth begin early to make economic decisions as consumers of goods and services. Therefore, from the **public revenue** aspect, their consumption is generating tax revenues. From the side of **public expenditures**, taxation is allowing equal opportunities in many aspects, including health and education, these being the most visible in these age strata.

Without this **solidarity investment**, which is done from the tax effort contributed by citizens and managed through the various public administrations, everyday life and the future prospects of young people would be very different. It is therefore necessary to make them aware of this reality.

Today, fiscal behavior is a guideline that individuals must incorporate in their adult stage while this aspect has not been properly socialized in this aspect since an early age. The complex subject of taxation to the material payment of taxes is typically reduced to this and even to how much is paid to the Treasury, when mere payment is an important part, but does not use up the meaning of tax liabilities.

The program began in the 2002-2003 school years with “Open Doors Days” at the delegations of the AEAT, where simple presentations were given at schools, they were shown the different branches and children and adolescents were given institutional gifts as a souvenir of their visit to AEAT.

In recent years various Treaties between the Tax Studies Institute and the AEAT have been signed with the aim of collaborating in the development of the program, especially in the organization of training courses for trainers.

AEAT develops in this area the following activities:

- Open doors days, where schools are received at AEAT buildings.
- School visits program, officials of the Tax Agency visit schools.
- Development of the Internet Portal on Civic-Tax Education, on the website of the AEAT, with two distinct sections: one aimed at students and one for teachers.
- Training for teachers in schools, through courses offered by the Tax Agency or with the collaboration of the education councils of the autonomous communities (through the network of Teachers and Resource Centers) and the Ministry of Education and Science (from the Higher Institute of Teacher Training).
- Collaboration with the Ministry of Education and Science for the inclusion of content Civic-Tax Education on the subject of “Education for citizenship”.

4. COOPERATION RELATION

Corporate Social Responsibility

Corporate Social Responsibility expresses the idea that financial accounting is merely partial reflection of the company performance, in that it produces positive and negative externalities that are not reflected. Social responsibility claims that these externalities are quantified so that the company’s actions are more in line with the interests of the community where it works. Corporate social responsibility has

extended its material scope to collect very diverse aspects, from environmental to customer relations with suppliers.

This has given rise to include tax compliance within the CSR, giving rise to the concept of “corporate tax responsibility”.

Taxpayers, mainly large enterprises, have become very susceptible to negative publicity related to many aspects, including taxation. The Management Boards must assume that current discussions of good governance, corporate social responsibility and ethics suggests that the bet for a tax position involving a forced interpretation of the rules, can generate such impacts in the image which entail potential financial loss, loss of opportunity or even the failure of the business strategies (financial risk and reputation risk or the institution’s reputation).

On the other hand, companies should consider that tax risk management cannot be done in isolation in taxation departments, but must be taken to the guidance bodies which must make the necessary decisions to increase transparency in financial information and assume the leadership of the relationship with the tax administration, facilitated by the incorporation of taxation to the principles of corporate social responsibility.

Companies with advanced responsibility with a formal structure and a perfectly designed tax risk management procedure, which is rigorously and regularly applied. This structure must be completed with the design of a periodic assessment system of its development, whose results must be known by the company’s decision-making bodies. All this allows internal audit to identify the risks the company is facing, develop tools to facilitate the decision-making process and provide information to stakeholders (shareholders, customers, suppliers...).

Therefore, among the key factors that determine decision-making processes in companies, as well as the interaction with tax administration is **Corporate Social Responsibility** and **reputation risk**.

In response to the new business reality, the Administration seeks the construction of new ways of relationship, building different bridges for communication between the tax administration and taxpayer:

- Establishment of **mechanisms for corporate or associative collaboration** between different entities and the AEAT.
- Promotion of relations based on cooperation and confidence, i.e. establishing a **cooperative relationship**.

Memorandum of Understanding to Prevent Tax Fraud

The 2005 Tax Fraud Prevention Plan established the need to establish mechanisms for corporate or associative collaboration between the AEAT and various entities for the detection and suppression of fraudulent behaviors affecting economic competition, being management committed to investigate irregular practices as a priority.

Memorandum of Understanding to Prevent Tax Fraud enables entrepreneurs and professionals or their representative associations to commit themselves to collaborate with the tax administration by providing relevant information to prevent fraud or accept a code of ethics or good tax practices.

Therefore go beyond the mere allegation by establishing stable and fluid communication channels between the AEAT and the companies or signatory associations, in which they provide relevant information to the AEAT while deepening knowledge of the operation of each industry in order to ensure more effective actions against fraud. Furthermore, within the framework of these agreements representative industry associations of the sector may perform individually or along with the AEAT communication activities aimed to educate society about the worst aspects of tax fraud in the economy and reinforce citizen tax awareness. Therefore it is a formula to extend the social partnership for the prevention of fraud, beyond the simple handling of complaints.

In this context, the AEAT has already signed 17 Memorandum of Understanding with major business associations representing the sectors in which fraud risk poses a threat to fair competition between companies.

The core content of the Memorandum of Understanding signed is as follows:

- Commitment of the signatories in the prevention of fraud: Memorandum of Understanding start from the principle of voluntary cooperation, i.e. companies collaborates because they want to do so to provide information beyond what the legislation requires them.

Taking into account the above, signatory companies proposed, for example, to supply information to the tax agency that it has or that it can obtain and is of interest to prevent or combat fraud activities and also organize activities targeted at the tax agency's staff to deepen the knowledge of the operational sector. The tax agency

for its part intends to enable a channel of communication flowing with the sector, publicize the Agreements on its web page and participate in joint communication actions for raising awareness against fraud in the sectors.

- Follow-up committees and permanent contact staff:

Two communication channels between the sector and the tax agency are formed in the framework of the agreements of understanding:

- o An institutional channel. As a relationship forum with the sector, commissions are set up in each sector to track agreements with the participation of the departments most directly related to the fight against fraud in each sector.
- o An operational channel: permanent and direct contact persons have been appointed by various sectors and the Agency (ONIF, customs and management).

Large Businesses Forum and Good Practices Tax Code

The update of the 2005 Tax Fraud Prevention Plan was underway in the tax agency in 2008 is expected to go a step further in terms of the tax agency with large taxpayers, through the commissioning of a new type of **cooperative relationship** with a small number of large companies in two phases:

1st PHASE. The creation of a discussion forum with large taxpayers where they analyze through joint or sector-wide meetings the main problems posed by the relationship between corporations and the tax administration and the extension of the relationship cooperative model is valued.

2nd PHASE. The possible implementation of a special framework through which the administration would provide, in terms commensurate to the needs of the company, a criterion on the tax implications of their operations in exchange for total transparency, provided that companies that voluntarily accept that particular framework provide all such information as necessary so management can set its criteria.

To implement the first of the proposals, on July 10, 2009 the Large Businesses Forum was formed, and it is the cooperative relationship body between the AEAT and a total of 27 Spanish companies to

promote greater collaboration based on the principles of transparency and mutual trust, through knowledge and sharing of problems that may arise in the implementation of the tax system.

The selection of companies to participate in the Forum was made taking into account factors such as turnover, inputted tax debt volume, volume of information provided to the tax administration, number of employees, activity sector and geographical distribution; choosing those which have been considered representative and susceptible of responsive dialogue for this purpose.

Materials which are the subject of knowledge and discussion in the Forum include those relating to the establishment of fluid communication channels to improve dissemination of interpretative criteria of general interest performed by competent bodies (administrative, economic-administrative and judicial), analysis of measures to simplify compliance with tax obligations, promoting electronic billing or the establishment of information channels that generate greater security in company actions while minimizing the possibility of litigation. .

Also, the Forum will enhance knowledge and assessment of regulatory projects of general interest.

Large Businesses Forum works through the plenary and working groups and agreements take the form of reports or recommendations in relation to matters dealt with in the same, therefore, they are not legally binding. The Forum itself is also expected to establish communication channels to the public of the agreements adopted in the same.

Currently there are three Working Groups:

- Development of a Good Tax Practices Code,
- Analysis and Rationalization of Indirect Tax Burdens,
- And Transfer Pricing.

The **Development of a Good Tax Practices Code** Working Group has completed its work and the text was approved in the Forum's plenary session which took place on 20 July 2010.

This code aims to enhance mutual cooperation between companies and the AEAT based on the principles of good faith and mutual loyalty, responsible tax policies for companies and the transparency and legal certainty in the application of standards.

To be part of the recognition of the importance of business in society, not only as entities that generate employment and wealth, but as agents of development of the communities in which they are inserted. Companies are aware of this and for years have been seeking to strengthen their social responsibility to contribute actively and voluntarily to social, economic and environmental improvement.

This social responsibility includes very diverse aspects (environmental, cultural, social cooperation, etc...), but between them, in recent years, the reduction of tax risks has gained strength.

Furthermore, one of the strategic goals of the Tax Agency is the promotion of voluntary compliance with tax obligations for all taxpayers. In the case of companies, meeting this target requires greater approach, a better knowledge of their performance, and especially to provide greater legal certainty, allowing them to effectively and efficiently comply with their tax obligations.

The Code of Good Tax Practices aims to achieve these objectives. Companies fundamentally assume the commitment of encouraging tax risk reduction and the prevention of the behaviors that likely to generate them. The tax office assumes the increase legal certainty for companies, assisting them in meeting their tax obligations.

Both parties assume the commitment to reduce the litigiousness in their relationships and conflicts arising from the interpretation of the applicable standards.

For the Tax Agency this Code of Good Tax Practices will mean an increase in the efficiency and effectiveness of tax control. On the one hand, with regard to companies that subscribe to it, its development will prevent non-compliance with tax obligations and costly tax litigation. And, on the other hand, will devote more resources and direct efforts to combat fraud in the right direction.

Furthermore, the Code of Good Tax Practices means Spain's leadership on tax fraud prevention practices. For several years, and as we have seen, the OECD countries are developing more cooperative relationships with companies, and they are taking on commitments to good governance in tax matters. But Spain has pioneered the joint development by companies and the administration of a Code of Good Tax Practices which is expressly accepted by both parties.

The Code of Good Tax Practices contains a series of recommendations measures or practices of companies in tax matters, it is not

comprehensive, but it is flexible, thus allowing companies to adapt them to their own characteristics.

Thus, transparency, good faith and cooperation with the Tax Agency in corporate tax practice, takes the commitment of promoting the reduction of significant tax risks for companies. Also provides that companies will avoid the use by companies of shady nature for tax purposes as well as the collaboration of companies in the detection of fraudulent tax practices. The Code highlights the importance of informing the governing board the policies implemented by the company, as well as the specific tax consequences of operations which must be approved by the said Board.

Furthermore, the Tax Agency, within the framework of these same principles of transparency and legal certainty, undertakes, *inter alia*, to move relevant information to the Management Committee of the Agency in cases of special importance or significant controversy, to publicize the criteria of general application and to allow taxpayers the knowledge of the criteria that will apply in its actions required in each case on the possibility of raising consultations on the treatment of certain specific operations, which will bring the need for new regulations and an organizational change in specific areas of the AEAT.

Another relevant aspect of the code relates to the recommendations to reduced the litigiousness and avoid conflict; this sets the commitment to facilitate the knowledge of the facts subject to adjustment, explicit valuation of claims on motivation, temporary quantification of assessment, etc.

Finally, to indicate that the Code of Good Tax Practices is born with a vocation of evolving, contemplating both accession, for all those companies that voluntarily subscribe to it, whether or not they are represented in the Forum, as in the follow-up of its implementation, through the creation of a follow-up Committee in order to analyze their development and to incorporate all those new materials appropriate procedure.

THE INFORMATION SYSTEMS AND THE NEW ORGANIZATION HOW FAR SHOULD INTEGRATION GO?

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Contents: Executive summary.-1. Introduction.- 2. It application integration between tax types.- 3. Conclusion

EXECUTIVE SUMMARY

This paper discusses the cost savings and cost avoidance of sharing Information Technology (IT) Infrastructure between Canada Revenue Agency (CRA) and Canada Border Services Agency (CBSA) and the integration of CRA tax applications between different tax types. It presents two perspectives on the value to be gained from information and communications technology integration.

Part 1 of this report addresses the advantages, challenges, lessons learned, risks and areas of further potential on the subject of infrastructure integration from the Canadian experience where two departments merged in 1994, integrated their infrastructure and some applications, and then separated in 2003 but still share IT infrastructure.

It highlights the difference between tax and customs business in terms of infrastructure needs, for example CRA's requirement to process large volumes of transactions and CBSA's need for recoverable services 7days a week and 24 hours a day (7X24). It also discusses areas where operational efficiencies can be gained by partnering on joint IT investments.

Sharing a centralized internal IT service provider gives the two agencies many advantages in the areas of quality of service, staff specialization, security, and network cost. At the same time, there are challenges, such as changing business, in organizations, managing risks and

expectations, avoiding overlap in roles and responsibilities, and alignment of technology and decision making. Also, there are many lessons to be learned from the merger/separation of two agencies and sharing the infrastructure; for example business should be physically separated but logically connected, and well-defined Service Level Agreements (SLAs) and Memoranda of Understanding (MOUs) are key to evolving governance.

The CRA-CBSA shared IT Infrastructure services relationship has matured over the years and we continue to strengthen and build upon the partnership. Integration is cost effective and provides efficiencies and economies of scale for both agencies. The shared services are considered by both agencies to be a success.

Part 2 of this report discusses the benefits, challenges, lessons learned and next steps of internal integration of tax applications within the Canada Revenue Agency.

Over the years, the CRA has integrated many tax and social benefit applications working within legislative and privacy constraints for cost avoidance and operational efficiencies and it continues to do so.

- In 1978, the Payment Processing System was created as baseline for future integration and today CRA manages over 90% of all payments made to the Government of Canada through the one application.
- In 1988, the Collection Case System was extended to all revenue types (Corporate Tax, VAT, Excise) from just the individual direct tax type.
- The Individual Identification System was extended to support both individual tax and social benefit (income redistribution or social welfare) programs.
- The Individual Credit Determination System that issues social benefit payments was created to support three federal benefit programs and was later expanded to support an additional 96 programs that service the federal, provincial and territorial governments.
- Other systems that were integrated are Business Number (BN), Corporate Income Tax, Client portals (MyAccount, MyBusiness Account), core functions of the Goods and Services Tax (GST), Harmonization of Corporate Tax between the Government of Canada and Ontario and, most recently, the integration of the Provincial Sales Tax of two provinces (Ontario and British Columbia) into the national Harmonized Sales Tax (HST).

Internal IT integration of tax applications brings many advantages, such as shared cost for improvements to applications and technologies, increased coherence in the administration of multiple taxes, resource sharing, data sharing with other government partners, business process alignment, reduced overlap and duplication of effort, standardized processes, common look and feel web presence and publications, and standards developed for public facing (self-service) applications for ease of online navigation. Integration requires buy-in from all stakeholders, and changes require longer lead times and more planning communication, and coordination. Our experience has demonstrated that to integrate applications successfully, it is necessary to use a structured and realistic approach to examine the organization and environment, understand the differences between the organizations, reuse existing measures or create composite measures as required, involve all stakeholders and consult experts for advice and support.

Integration of tax services and applications has many benefits both to the tax organization and taxpayers. Key factors for successful integration of tax services or modifications to existing application services include early stakeholder engagement, strong leadership, an architected approach to application and infrastructure development, and a solid understanding of technology and the tax business.

Local legislative and privacy constraints may impose limits on the level of benefit to be gained by data sharing facilitated by integration.

1. INTRODUCTION

The purpose of this paper is to share the Canadian experience of integration of Information Technology (IT) at the Canada Revenue Agency (CRA) for tax and customs administration.

The discussion approaches the subject from two perspectives:

- 1) the value to be gained from information and communications technology infrastructure integration between the CRA and the CBSA, and
- 2) the opportunities to be leveraged by integrating various tax functions or services (application integration) in support of multiple taxation types as opposed to having stand-alone application solution for each.

IT integration can bring value to tax and customs administrations both in the form of IT cost reductions or cost avoidance, and through

improved compliance and enforcement activities due to access to a broader pool of higher quality data.

In both infrastructure and application integration, the added complexity of serving multiple needs or users can pose challenges and risks that will require attention if the agility needed by tax and customs administrations is to be sustained.

In the case of Canada, tax legislation does not permit the use of tax data by the customs administration as an additional source of risk profiling information in compliance and enforcement activities. However, for tax administration compliance and enforcement activities, all sources of tax information are considered in risk profiling with application integration as a foundation piece that facilitates data matching and the feeding of many types of tax data to the data warehouse for use in compliance and enforcement analysis. In doing so, significant attention is paid to ensuring all legislative restrictions regarding the use of tax information are respected.

Infrastructure Integration, Tax and Customs

1.1 Background

Canada Revenue Agency (CRA)

The Canada Revenue Agency administers and collects taxes and provides social benefits to Canadians on behalf of the Government of Canada and the provinces and territories. It has approximately 44,000 employees during peak periods and 50 Tax Services Offices and Tax Centres across the country. CRA provides online services to file taxes (e.g. Netfile), to find information about personal accounts (My Account) and corporations/businesses (My Business Account), along with many other online services.

CRA collects roughly \$350 billion in tax revenues across several tax types from a taxpayer base of 26 million and distributes social benefits of roughly \$16 billion to 11 million entitled individuals and families.

Canada Border Services Agency (CBSA)

The Canada Border Services Agency ensures the security and prosperity of Canada by facilitating the access of people and goods to and from Canada. It has approximately 15,000 employees and 1,200 service points across Canada, as well as 39 locations abroad. The main business enablers from a technology perspective are advance

traveler and cargo information transmission through Electronic Data Interchange (EDI) and web channels, document readers (passport, driver's licenses, and license plates), biometrics (fingerprint and iris) and radiation detection.

CBSA processes 266,000 travelers and more than 75,000 courier shipments daily. It also processes more than 18,000 trucks that enter Canada each day from the United States of America.

Organizational Changes 1994 to 2004

In 1994, Revenue Canada Taxation and Revenue Canada, Customs and Excise were merged into one department; Revenue Canada. In November 1999, Revenue Canada became the Canada Customs and Revenue Agency (CCRA).

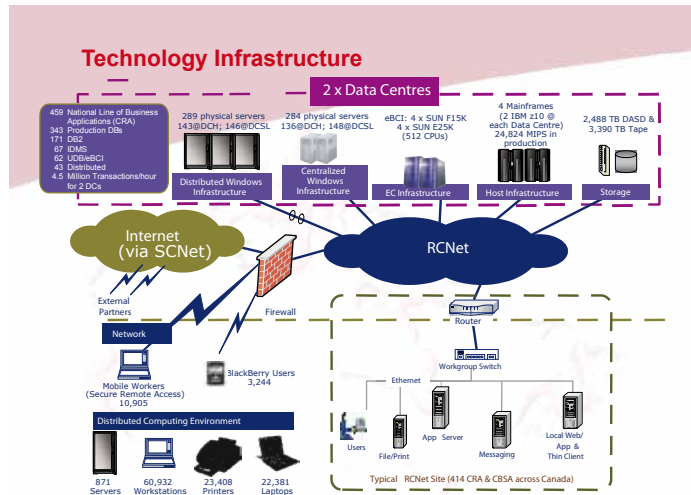
In December 2003, the Canada Border Service Agency (CBSA) was created from functions merged from Citizenship and Immigration Canada (CIC), Canada Food Inspection Agency (CFIA) and the CCRA. In April 2004, after spending 10 years integrating the tax and customs IT infrastructure, we were faced with separating the two. In view of the savings gained by merging the infrastructure and the large cost and risk that would have been incurred if we were to sever the CBSA portion, the decision was taken to continue using a shared infrastructure foundation under an IT infrastructure shared service cluster — moving only the customs applications and their supporting staff to the new CBSA organization. In addition to the shared IT infrastructure, we also share a common Corporate Administrative Services application (CAS) for all human resource and financial management systems under a single SAP solution.

This IT shared service relationship was reviewed in 2009 and it was agreed that the CRA would continue to provide shared IT Infrastructure and Corporate Administrative Systems (CAS) services to the CBSA for the foreseeable future.

IT holdings of both Agencies Before and After

In 2003, before the agencies split apart, CBSA contributed about 27% of the total IT infrastructure cost. As of 2010, the customs share of the CRA IT infrastructure cost has risen to 50% due to the higher application availability needs (7X24) for customs services and a significant increase in the use of advanced notification systems and risk profiling for both cargo and travelers to facilitate enhanced border security and access.

Current CRA and CBSA Technology Infrastructure



1.3 Difference and Similarities - IT Infrastructure Needs

CRA:

Canada Revenue Agency requires:

- the capacity to effectively process large volumes of tax and benefit transactions and execute large-scale batch and online processing with infrastructure that scales to meet multiple peak processing periods (month ends / year ends),
- easy to use, secure, and scalable electronic service delivery channels to facilitate self-service and compliance by tax filers, and
- extensive data storage, management, and access facilities to support ongoing compliance and enforcement analysis and operational risk profiling needs.

CBSA:

CBSA requires highly available (7X24) and recoverable services in support of 15,000 employees performing critical border and immigration services.

- Individual travelers - multiple unique technologies connected to the network (e.g. License Plate Readers, Smartcards, specialized printers, cameras, Livescan biometric kiosks, Nexus kiosks) resulting in higher distributed environment support costs,

- Trade facilitation of air, marine, truck, and rail cargo - robust and secure electronic data interchange infrastructure services and growing e-Manifest portal needs, and
- Extensive data storage, management, and access facilities to support ongoing compliance and enforcement analysis and operational risk profiling needs.

Thus, while there are differences, there are also many infrastructure need similarities with regard to the need for a reliable and secure network, a large and secure data centre (and backup facility), strength in data management, and the capacity to manage large volumes of data processing and storage. The key differences are the higher availability needs for customs processing to keep the borders open and cargo moving versus the tax processing need for scalability to manage peak periods of processing. The second difference is the added complexity of the customs distributed environment.

1.4 Benefits Realized from Shared Infrastructure Services

Sharing a centralized internal service provider gives the two agencies many advantages. Overall, a shared IT infrastructure services arrangement can offer better quality infrastructure and infrastructure services at a lower cost than individual business units can afford to make for themselves provided that governance processes ensure that stakeholder needs are listened to and met.

Specific benefits are:

Sharing of infrastructure support expertise

Instead of each Agency hiring technical staff, we share highly skilled and unique resources (e.g. technology platform architects). In addition, resources can be deployed more effectively for the resolution of IT incidents. When we looked at separating the infrastructure of the two organizations, the cost assessment indicated we would need an additional 33% more resources to support separate infrastructure foundations.

Economies of scale

We achieve better balancing of workloads taking advantage of when one business unit's peak load may occur at a time when other business units are slow. Thus, total demand is less than the sum of each other's peaks. (CRA – March through April, CBSA – July and August).

Procurement buying power

Some software product licenses can be shared at a lower unit cost as enterprise licenses apply to a platform not an agency. A larger IT service provider can drive a better deal with hardware and software vendors. As well, right sizing capacity for a large organization is less expensive and more economical than right sizing for two smaller ones.

Eliminate redundancies

A shared-services organization can eliminate duplicate training, product research and development, architecture mapping and governance, policy formulation, procurement processes, and IT support functions such as operations, desktop services, help desk, and incident management.

Improved quality of service

A larger shared service organization can support a broader, more diverse infrastructure with platforms for different business service needs supported by more robust incident, problem, change, and release management processes.

Staff specialization

A larger infrastructure organization can support greater technical specialization with economies of scale allowing for more cost effective training and talent development. Depth of technical expertise leads to infrastructure performance improvements in speed, cost, and quality as well as better support for innovation.

Security

Increased scale of the infrastructure organization can support a shared Security Operations Centre for improved monitoring as well as greater investment in standards and security software to protect the integrity of the network and data holdings.

Real Property

Efficiencies and financial economies are gained through reduced real property requirements of the IT infrastructure (staffing, utilities, physical security etc.).

Network Costs

Economies are gained from band width volume discounts, shared

cost of network upgrades, and shared usage at points of common presence.

Data Centre Recovery

Both agencies have recovery capability at either of the two Data Centres eliminating the need for each to have their own back up data centre.

1.5 Impact on CRA, CBSA and Government of Canada

- The CRA's data centres are the two largest in the Government of Canada, representing more than 60% of its mainframe computing capacity.
- Represents significant cost avoidance for the Government of Canada.
- Allows both agencies to leverage and benefit from each others needs for highly available and mature IT infrastructure services and resources.
 - Requires maintaining a high level of system performance and national network availability (7X24), within established service level objectives.
 - Supports significant change agendas for both agencies.
- Ongoing partnering on joint IT investments has provided opportunities for operational efficiencies for both Agencies in the areas of
 - Data Centre Facility Improvements
 - IT Security Modernization
 - Network Services Modernization
 - Distributed Computing Environment Improvements
 - Corporate Administrative System (CAS)
- Allows CBSA to focus on areas of core service delivery applications and new solution development using advanced border technologies.

4.6 Lessons Learned

Within the shared infrastructure, it is best to physically isolate individual infrastructure components between agencies to reduce the risk of infrastructure change activities in support of one agency affecting the other, but to logically connect them for shared management and procurement.

- A comprehensive Memorandum of Understanding to cover the service agreement and arrangement is essential and needs to be

backed up by realistic and well defined Service Level Agreements with a clear understanding of what the cost drivers for infrastructure services are.

- Increased costs are incurred when you separate infrastructure support responsibilities to be unique to each organization.
- For a shared IT infrastructure arrangement to work well and deliver quality service at reduced cost, it requires a significant time investment by senior management to ensure the relationship is and remains responsive to stakeholder needs.
- The management and support overhead required to manage a shared relationship well will be greater than anticipated for both organizations. This comes from the discovery process of just how much monitoring and reporting is required, in the form of ongoing operations, incident management, billing and accounting, asset management, and performance measurement to ensure there is sufficient transparency in the relationship to sustain trust and collaboration.
- Organizational awareness that you are in a shared services relationship is key at all levels, as being a shared service provider brings additional accountabilities and challenges.

4.7 Challenges

- Keeping pace with the changing business directions and needs of two agencies is more difficult than keeping up with those of one. This is especially true if both have fairly aggressive development agendas to both sustain and enhance their services, which has a direct impact on IT infrastructure services.
- Balancing the need for IT operational efficiencies and risk management with the need for more responsiveness, flexibility and rapid change is challenging as infrastructure change generates risk which is managed by bundling changes into releases that are implemented through a limited number of maintenance windows.
- Managing senior management service expectations and response to infrastructure failures.
- Balancing the need for discipline and standardization in the management of IT infrastructure through adherence to rigorous change and release management processes with the need for the agility and flexibility to accommodate stakeholder needs.
- Overlap or confusion in regard to roles and responsibilities.
- Alignment of Technology Architecture standards.
- Detailed cost accounting for annual service payment processing regarding additional capacity added as well as accounting for the broader cost allocation formulas that drive service costs.

- IT Asset Ownership and Licensing.
- Agency level decision-making cycles are not aligned to ensure both agencies have approved funds for projects before they are launched and costs are incurred to improve infrastructure assets or services. This leaves the host agency at risk of failure to pay by the service consuming agency.

1.8 How we Make it All Work

For IT infrastructure integration, it is necessary to understand each others business and build trust as the foundation of the partnership. We have a Service Level Agreement to manage the provisions and availability of the key services to provide best possible service to the Canadians and use a governance framework to document the mechanics of the relationship. We utilize standardized technology architecture and best practices as applicable.

Our experience has demonstrated that open, regular and focused communication is the key to making the relationship a success; therefore, we have created steering committees and focus groups at all levels (executive and operational by platform) to share information, discuss challenges/issues, find solutions, and celebrate success.

The CRA and CBSA hold quarterly bilateral meetings with senior executives, bi-monthly operational meetings, and other monthly steering committee meetings (Distributed Computing, Mainframe, Electronic Commerce, Financial Management, etc.) to stay engaged, share information, provide updates, discuss challenges, and together find ways for continuous improvements.

Recognizing that the Government of Canada is pursuing a broader shared IT services strategy that will see new examples such as the CRA-CBSA model, we continue to build and strengthen our partnership in recognition that shared IT infrastructure services can be cost effective and provide efficiencies and economies of scale for both agencies while respecting service levels and business needs.

2. IT APPLICATION INTEGRATION BETWEEN TAX TYPES

This chapter of internal integration of tax applications and services covers the evolution of integration of tax applications and our current approach to tax services integration. It also discusses the benefits, constraints, lessons learned, and challenges of application integration.

2.1 The Evolution of the Integration of Tax applications at CRA

Canada Revenue Agency has successfully integrated many tax applications for cost avoidance and efficiencies as well as for service improvements and compliance simplification. For example:

- Payment Processing – This service was created in 1978 as a baseline for future integration. CRA now manages over 90% of all payments made to the Government of Canada. All payments are processed by this single application which then provides update transactions to the receiving accounting systems.
- Collections Case System – This workflow management system was created in 1988 as a baseline for future integration. It supports the collection (for all tax revenue types) of more than \$20 billion by CRA collections staff.
- Refund Setoff Program (RSO) - The RSO Program is a CRA initiative under which the tax refunds of individuals are applied against unrecoverable Crown debts from other departments or jurisdictions. It was created in 1992 as a baseline for future integration with 3 federal programs being implemented in this first phase. It was expanded in 1998 to include provincial/territorial debts. RSO now supports 209 programs and services for federal, provincial and territorial governments. In 2009, over \$328 million was recovered from set-offs, bringing the total recovered over \$2 billion since 1992.
- Individual Identification - Service expanded in 1993 to support both individual tax and benefits programs. The CRA operates with only one identity data base for individual citizens.
- Benefits and Credit Delivery - Service created in 1996 managing benefits and credits for three federal programs and now supports 96 programs and services for federal, provincial and territorial governments. (90.9 million payments totaling more than \$16 billion on time to 11 million individuals and families in 2008-2009).
- Collections and Compliance - Automated risk scoring process determining optimal collection or compliance strategy to apply created in 1997. Initial release covered the collections of debt related to the individual income tax. This service now supports most programs at CRA.
- Business Number (BN) - Integration of business client identification and registration of Corporate Tax, Goods and Services Tax, Payroll Tax and Excise Tax. The BN database is the second identity database at the CRA managing non-individual identities on behalf of all tax types.
- Corporate Income Tax - Creation of horizontal services supporting core business functions (Accounting, Compliance, Disbursements,

- Collections, Client Communication, etc.) relating to Corporate Income Tax for both federal and provincial corporate direct tax processing (one return, multiple jurisdictions).
- Revenue Ledger - All of CRA's systems handling financial transactions are required to report to the Revenue Ledger application. CRA's single Revenue Ledger interfaces with the Canada Receiver General – General Ledger for deposit reconciliation, disbursement reconciliation and monthly financial reporting. Until 2009, the CBSA also used this Revenue Ledger application.
 - Client Portals - My Account (individual tax) was launched in 2003, My Business Account (corporate tax) in 2006, and Represent a Client in 2008. These portals provide clients or their authorized representatives with an easy to use Internet-based service that allows them to manage their tax affairs online by viewing their tax and benefit information and by transacting online with CRA.
 - Goods and Services Tax Harmonization (GST/HST) – In 2007, integration of core business functions relating to Goods and Services Tax prepared the foundation for harmonization of provincial sales taxes with the federal value added tax in the provinces of Ontario and British Columbia.

2.2 Common System Architecture

Conceptually the business functions of the revenue administration are the same regardless of revenue type as illustrated in the next diagram which represents CRA's Enterprise Application Architecture. This architectural view effectively guides decision making on major reengineering initiatives with regard to which tax application services each tax type will use from the shared services pool and which ones will be entirely custom made for that tax.

This architectural view also indicates where you can expect to get strong versus weak integration and functionality from commercial tax applications that try and serve multiple tax types.

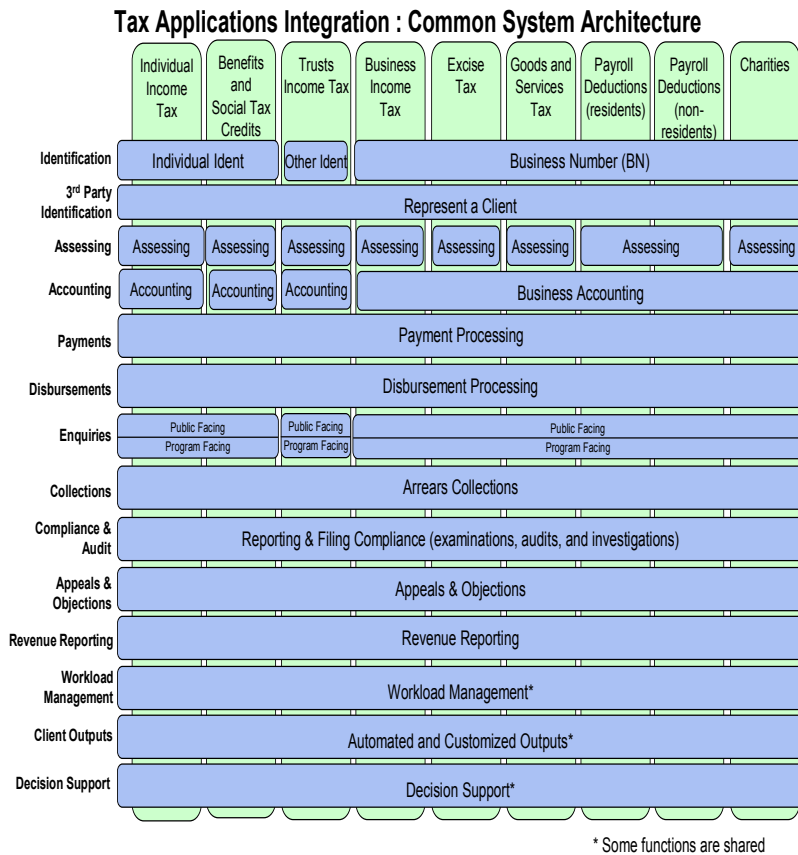
The strategy began as far back as 1978 with the creation of the Financial Input Processing system. In 1997, the strategy was formalized for the business suite of applications.

This resulted in two strategic investments:

- 1) Business Number (BN), which provides a unique business client identifier linking operational accounts; and

- 2) Standardized Accounting (SA), which provides for the integration of business programs into one accounting system with standardized business rules (e.g. consolidated statement of account, offset of debits in one program with credits from another).

2.3 Tax Application Integration – Common System Architecture



2.4 Growth of Benefit Programs and Data Interfaces

Perhaps the CRA's most successful investment in a services approach to serving multiple business lines from a shared solution has been in the social benefit income redistribution application. This diagram demonstrates the growth of benefit programs and data interfaces at Canada Revenue Agency from 1995, when the Individual Credit Determination was completed under a service based architecture to support multiple benefit types, to 2011.

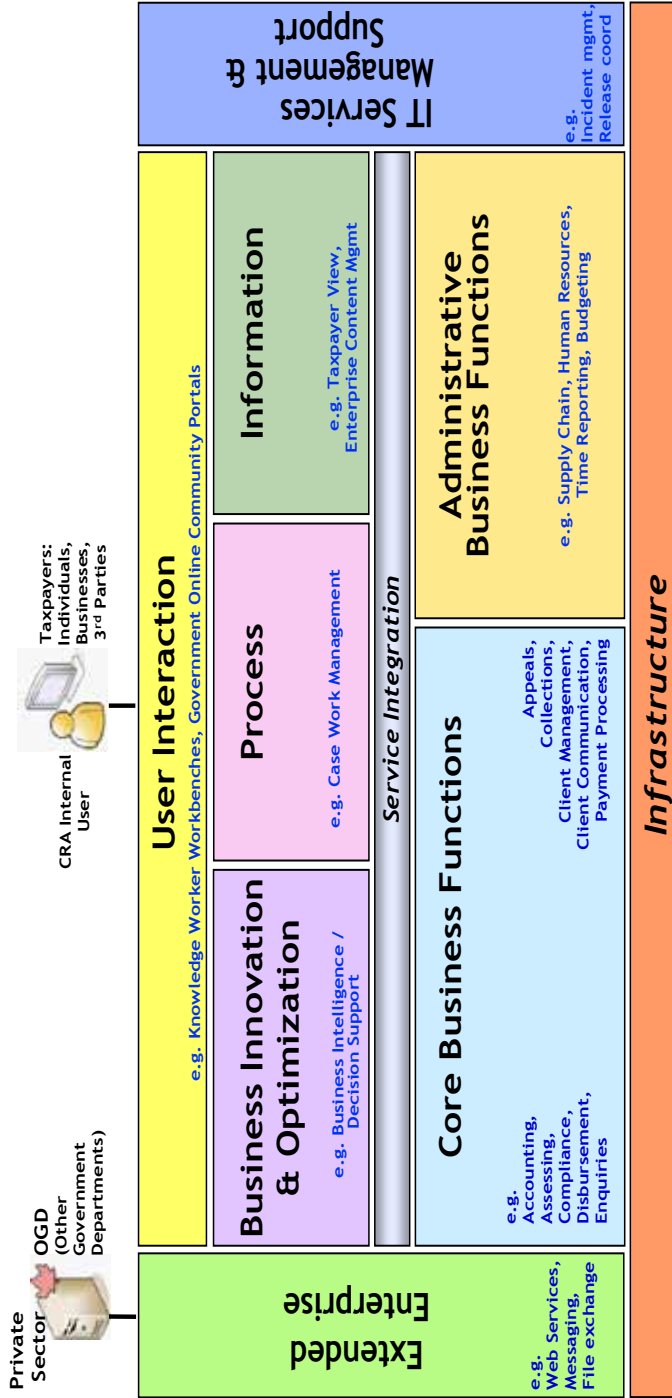
One key aspect to the success of this solution is actually outside of the IT realm but consistent with the common services or service component architecture. That is that the business rules for jurisdictions wishing to issue benefits to citizens using this application must align to key business rules with regard to identity management and accounting.

2.5 CRA Current Approach to Tax Services Integration:

2.5.1 What is an IT Services Reference Model?

- An application architecture model based on the Service Oriented Architecture (SOA) principles of interoperability, modularity and reusability.
- Offers a classification scheme and definitions for IT Services. Generally services are the building blocks of applications although in some cases they are entire applications that offer a service such as the CRA payment processing application for use by all tax types.
- Includes both program-facing services providing tax administration functionality such as workflow management or external portals for use by taxpayers, and foundation-facing services that provide IT infrastructure (such as security and user authentication) and data (such as data access) perspectives.
- The purpose of this architecture model is to:
 - Provide a common, simplified and business-centric vocabulary to facilitate communication and understanding between the tax program administration officers and IT analysts and architects.
 - Facilitate the development of business requirements through alignment of IT services to known business needs early in the development life cycle, by providing business stakeholders with a solid foundation to segment the gathering and documentation of requirements. Fewer specifications will be required where the business functionality aligns to an existing service that can be reused rather than a new or custom service.
 - Facilitate the alignment of IT strategies and solutions to business needs, including opportunities to leverage commercial off-the-shelf products where appropriate and to focus development investment on the most commonly needed services.
 - Provide a frame of reference to help identify redundancies (multiple services or applications providing the same functionality) and gaps in IT services where early investment for a service that could be shared now will pay significant dividends in the future.

IT Services Reference Model



2.5.2 What are the Benefits of Tax Services Integration?

- Shared application service development and maintenance costs (including future improvement to applications and technologies).
- Increased coherence in the administration of multiple taxes including the potential to administer taxes and benefits across jurisdictions or levels of government, resulting in fewer interactions and overhead for business and individuals.
- Integration facilitates data sharing with other government partners (across domains) and across revenue types, improves risk profiling for compliance and enforcement, allows third party matching and financial setoffs, and improves data quality.
- Corporate and common services sharing allows for business process alignment and rules harmonization for all tax and revenue types:
 - use of a common identifier reduces the overall compliance burden for Businesses and Individuals and provides the ability to provide a single enquiry point of contact to make enquiries easier,
 - consolidated and standardized client communications and self-service options,
 - common collection and compliance activities and audit capabilities of multiple revenue lines at once,
 - common workflow management system, and
 - one common Revenue Ledger function used by all systems.
- Other benefits include:
 - Facilitates ongoing increases in productivity, transparency, and agility to the extent that business rules and processes can be aligned.
 - Makes system development more complex, but there are fewer systems to change.
 - Reduces overlap and duplication with respect to development or enhancement activities, communications, and system development and maintenance workload management.
 - Standardizes release, communication, issue, risk and change management processes.
 - Standards developed for public-facing applications allow for common look and feel and makes it easier for citizens to navigate, find information, make payments, etc.

2.6 Constraints

There are certain constraints that limit the opportunities of integration, for example for assessing, accounting, enquiries, and audit, where

functions may only partially be merged due to:

- the complexity of tax law,
- the uniqueness of the process, or
- the differences in identity management.

This applies to either solution that is bought or, built by the organization. For example, business accounting can be integrated across revenue types; however individual accounting cannot be included in that integration.

2.6.1 Legislative and Privacy Constraints

Canada, like many countries, has in force a *Privacy Act* that establishes limitations on the amount of data organizations like the CRA can gather from citizens and business and, to oversee that the sharing of that data is consistent with our mandate and legislative authorities. Thus, when establishing business requirements for application integration, these constraints must be addressed in the early phases.

The lack of harmonization between tax statutes also makes integration more complex; examples include filing and payment due dates, mandatory bank remitting, penalty rules, and non-interest bearing arrears.

Canada's *Income Tax Act* (ITA) specifically authorizes the situations for which usage and exchange of taxpayer information is permitted between the Agency and other departments. Tax information cannot be used for any other purposes than the administration or enforcement of the ITA.

Example situation:

In the process of setting off against any sum of money (liability) that may be due or payable by Her Majesty in right of Canada requires use of the account number. An account number (Individual or Business) may be communicated outside of the tax administration only if authorized by the ITA.

2.7 Lessons Learned

During the process of integration of internal applications, CRA has learned many lessons. For example:

- Situate your strategy.

- Strategies do not exist in isolation.
- Ensure alignment with corporate strategies, the Corporate Business Plan and other enterprise documents.
- Focus on the change agenda (follow a roadmap for change).
 - Where are we now? Where do we want to be? How are we going to get there?
- Be inclusive
 - Involve rather than impose projects on people.
 - Inclusion leads to strengthened sense of engagement and support among all stakeholders.
- Use a structured, realistic approach to examine the organization and its environment to ensure business needs have been captured accurately.
- Consult experts for advice and support.

In addition, governance of shared application services or shared applications requires leadership and process maturity in the organization to be able to manage system development and maintenance horizontally across different tax types with regards to change request priority setting and managing the timing of enhancement upgrades to meet the business needs of all stakeholders. The governance model must also deal with the funding model both for development and ongoing maintenance from the outset.

2.8 Key Architecture and High Level Design Considerations for Success

- Strong engagement between the IT developers and the tax administration staff responsible for the oversight and operation of tax administration is essential to ensure the business value of application integration has been correctly identified and business requirements are clearly identified.
- Manage the scope of change through phased implementation.
- Integrate less complex functions first (consolidated collections and compliance workflows, single tax identification number, workflow case management system, and other less complex functions).
- Harmonization of legislation/business rules is key to maximizing benefits.
- Early engagement of system architects is required to ensure proper business and IT alignment.

- Develop standard interfaces to expose services (to react to events such as new account creates, new debts, call centre referrals, and so forth) to minimize the amount of custom code.

3. CONCLUSION

Infrastructure Integration

From a return on investment perspective, the IT infrastructure shared service arrangement will present a more immediate and achievable cost reduction and cost avoidance saving than application integration will. This is because the level of research and analysis to define detailed business requirements and priorities across multiple business lines is largely not necessary thus the degree of collaboration and the need for horizontal business change is reduced. In the case of infrastructure, if done well, the changes to consolidate to application hosting and security and network services can largely be designed to minimize the impact on applications and tax administration service delivery staff.

The key is the “done well” aspect, because if the department or company that is to provide the infrastructure services is not a mature IT infrastructure service provider with sound practices in incident, change, release, and asset management, then the outcome of integration will be service delivery disruptions and poor relations between the serving organization and the service receiver (in our case, the CRA and the CBSA). The service provider also needs adequate depth of expertise and human resources to be able to effectively engineer platform needs that meet or exceed program needs. Consideration should be given to having an external benchmark done on the organization being considered as the infrastructure service provider.

Regardless of whether an internal (government department) or external (private sector) IT infrastructure service provider is to be used, the keys to success mentioned regarding having a clear contract (MOU), service level agreements, open communications, sound infrastructure processes and best practices, and a good governance model at several levels apply to achieve the savings and cost avoidance potential. In the case of smaller tax and customs administrations, and government departments in general, attracting and retaining skilled IT human resources can be a significant challenge to sustained service delivery. Therefore the model of consolidating the IT infrastructure of two or more departments can be a cost effective way to build the critical mass necessary to compete for these resources on a global scale.

Application Integration

Application integration in providing tax services has many benefits both to the taxpayers in the form of more seamless and integrated interactions regarding tax transactions and to the tax administration. It also brings some challenges including legislative constraints that impose limits on integration and, the need to overcome the natural resistance to change that will be encountered from business lines in moving from an individual solution responsive to program needs to include some collective service solutions for some of the more common horizontal business needs across tax programs.

Being successful in adopting and following this strategy demands collaboration between the IT group and those responsible for the administration of taxes to ensure that the priorities identified reflect real business value for the administration and, to ensure the IT development group gets it right based on sound detailed business requirements.

If an administration is unable to pursue an integration strategy due to such challenges as organizational maturity, systems capability and capacity, human resources, or politics, an alternative is to approach it only from a data perspective, with an aggressive business intelligence and decision support capability program. This in itself would involve building a data warehouse environment based on a detailed analysis of data needs for risk profiling and tax behaviour analysis. It would require significant collaboration and investment of business and IT resources to ensure the data is valid and understood, as well as an IT environment to extract data from operational data bases, load the data warehouse, and feed the data marts that will be accessed by tax compliance analysts using analytic tools. What this approach lacks is the cost savings and avoidance application integration can deliver as well as the simplification of compliance with tax laws through harmonization of rules and integration of processes. It also includes a risk that data quality will suffer over time if inter-administration collaboration is not sustained.

In the case of the CRA, we have implemented a rich business intelligence and decision support environment in addition to application integration as integration by itself does not deliver the business intelligence environment needed to have an effective risk profiling and tax analysis regime aimed at improved tax compliance.

THE INFORMATION SYSTEMS AND THE NEW ORGANIZATION. HOW FAR SHOULD INTEGRATION GO

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Executive Secretary
Management Committee of SIMPLES
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(Brazil)

***Contents:** 1. Summary.- 2. Context.- 3. Types of integration.- 4. Phase prior to the simples nacional system.- 5. The legal framework for integration: constitutional amendment 42/2003.- 6. The simples nacional system.- 7. Information systems: Simples nacional technology solutions.- 8. PGDAS - program for the generation of the collection form for the simples nacional system.- 9. Calculating the outstanding amount.- 10. DASN - annual simplified simples nacional statement.- 11. individual micro-entrepreneur (MEI).- 12. Integration Challenges.- 13. Limits to integration.- 14. Present challenges.- 15. Integration model potential.- 16. Conclusion*

1. SUMMARY

This paper addresses the federal integration aspects and potential. In other words, integration between central and sub-national administrations, focusing on the Brazilian experience in the implementation of the Simples Nacional system.

In spite of the difficulties arising from the features of Brazil as a federal republic made up by a Union, States, a Federal District and Municipalities, all of which enjoy political power and tax enforcement authority, in addition to the great geographic extension, we have succeeded in overcoming the different challenges that bear an impact on every integration process.

Among such challenges, we may highlight the creation of the appropriate legal framework for integration, with the constitutional modifications arising from Constitutional Amendment N° 42 in 2003, enabling the enactment of Supplementary Act N° 123 in 2006.

Said supplementary act enforced the *Simples Nacional*, a tax system unifying the taxes applicable in the three levels of government – Federal, State and municipal – focused on the micro and small businesses. Additionally, it determined shared management and procedures for registration, enforced collection, collection and auditing.

Shared management was designed upon the creation of the *Simples Nacional* Management Committee, a body with enforcement authority made up by representatives of the *Receita* Federal of Brazil, the States, the Federal District and the Municipalities.

In addition to shared management, the actual procedures under the *Simples Nacional* system are carried out by each Tax Administration on an autonomous and sovereign basis. All of them enjoy effective and converging operating power spanning the deferral of system adhesion options, exemption of corporations, collection efforts and tax proceedings.

Information systems were vital in the integration process, whose principle was to use an open and democratic technology platform, with open access for taxpayers and a single Internet portal common to all the tax administrations.

Data and applications' secure access is guaranteed by the use of digital certificates. The autonomy of federal entities is secured by the decentralization of controls on user access to IT systems.

Once the legal challenges were overcome and the appropriate technological solutions developed, the limits to integration relate to the autonomy of each Tax Administration.

Subordination or hierarchy between the Union and the remaining federal entities are inadmissible, to the extent each one enforces their authority as provided for in the Constitution.

Lastly, we wish to set forth that the *Simples Nacional* experience may contribute to other integration processes, whether regarding tax matters or other federal affairs.

2. CONTEXT

Brazil is a federation with a very particular structure. The Federal Republic of Brazil is made up by a Union, a Federal District, States (26 presently) and Municipalities (5,564 presently). In other words, the federation features 5,592 members.

It is not merely a matter of administrative decentralization. Each federal entity enjoys political, administrative, tax, budgetary and fiscal power. There is no subordination among the States, the Federal District and the Municipalities with respect to the Union. Entities enjoy different competencies, even in the tax sphere, which have been provided for in the Constitution.

Also, Brazil features a significant population – 191 Million inhabitants, GDP (2009) amounting to 1.574 Billion USD and an extensive geographic area of 8.5 Million square kilometers.

3. TYPES OF INTEGRATION

The integration among tax administrations belonging to different federal entities may occur in different forms and at different levels.

We may assert that the basic type entails only information exchange, whether regarding the tax registry or economic-tax matters. Such information exchange may be provided for by law or arise from agreements among government administrations. Differences also arise in the execution of the agreements.

Information circulates via physical and magnetic means, and in the most advanced cases, via the direct access to the IT systems of the agency providing such information.

The second modality features exchanging methods and experiences. Therefore, it entails sharing knowledge relative to the theoretical and practical mechanisms aimed at improving the Tax Administration's effectiveness.

The first two types of integration are the most widely disseminated ones, also at different levels of execution and efficiency.

Lastly, we may mention a less frequent but more advanced type of integration, which foresees shared tax management: federal entities from different levels manage collection, auditing and enforced collection of certain taxes.

The latter integration modality -- which may be called "shared management model", and is unprecedented in other countries -- is the one in place through the *Simples Nacional* system in Brazil since July, 2007.

4. PHASE PRIOR TO THE SIMPLES NACIONAL SYSTEM

The first attempt at shared tax management in Brazil was undertaken with the implementation of the “Simples Federal” system, created by Act N° 9.317/1996, enacted in January, 1997.

The Simples Federal system was instituted pursuant to Article 179 of the 1988 Federal Constitution:

Art. 179. The Union, the States, the Federal District and the Municipalities shall give micro and small businesses, pursuant to their legal status, a special legal consideration, in the form of incentives based on the simplification of their administrative, tax, pension and credit obligations, or by their elimination or reduction as set forth by law.

The Simples Federal system required unified collection of 6 (six) federal taxes:

- IRPJ - Corporate Income Tax;
- IPI - Industrialized products' tax;
- CSLL - Net Income Contribution;
- COFINS – Social Security Funding Contribution;
- PIS/Pasep Contribution;
- CPP - Employer's Pension Contribution for Social Security, borne by corporations, also known as "Employer's Social Security Contribution".

Additionally, Act N° 9.317/1996 enables States or Municipalities to adhere to the Simples Federal system on a non-mandatory basis. The tax system for the adhering entities who subscribed an agreement included the following taxes:

- State Tax: ICMS – Tax on Transactions relative to the Circulation of Goods and Rendering of Inter-State and Inter-Municipal Transportation Services and Communication Services;
- Municipal Tax: ISS - Tax on Services of any Nature.

The inclusion of the ICMS or the ISS in the *Simples Federal* system has not been materialized yet. Very few Municipalities subscribed (barely above one-hundred). Certain States signed the agreement, but none remained.

States decided to create Simplified Systems in their territories, focused on Micro-businesses (ME, as per the Portuguese acronym) and Small-businesses (EPP, as per the Portuguese acronym). Therefore, we featured the Simples Paulista (from the State of Sao Paulo), or the Simples Carioca (from the State of Rio de Janeiro) or the *Simples Candango* (from the Federal District). Such simplified systems only covered the ICMS.

Therefore, we may assert that the first attempt at establishing the unification of taxes from different federal entities was unsuccessful in our country.

5. THE LEGAL FRAMEWORK FOR INTEGRATION: CONSTITUTIONAL AMENDMENT 42/2003

In 2003, our country passed Constitutional Amendment N° 42 (amending Article 146 of the Federal Constitution), among other purposes, to offer better conditions for federal tax integration:

Art. 146. The supplementary act shall:

(...)

III - establish general tax law regulations, especially concerning:

(...)

d) defining the special and favored treatment for micro-businesses and small businesses, even special or simplified systems for the tax set forth in Article 155, II, the contributions set forth in Article 195, I and §§ 12 and 13, and the contribution defined in Article 239.

Single paragraph. The supplementary act set forth in subsection III, d, shall also institute a single tax and contributions' collection system for the Union, the States, the Federal District and the Municipalities, since:

- I - it shall be optional for taxpayers;
- II- States shall establish specific framework conditions individually;
- III- collection shall be unified and centralized and the distribution of the revenue share to the respective federal entities shall be immediate, banning withholdings or restrictions of any nature;
- IV - collection, auditing and enforced collection shall be shared by the federal entities upon adopting the single national taxpayers' registry.

As we may note, the single paragraph of Article 146 of the Federal Constitution provided for the creation, based on a supplementary act, of a “single tax and contributions’ collection system for the Union, the States and the Municipalities”; moreover, it enables, “collection, auditing and cobranza shared by the federal entities upon adopting the single national taxpayers’ registry.”

In furtherance of the decisions stemming from Constitutional Amendment N° 42/2003, Supplementary Act 123 was published on 14 December, 2006 (Supplementary Act 123/2006).

Said act was a landmark in the history of micro and small businesses in Brazil.

Based on the most modern principles in effect, the decision was made to include in the law all matters pertaining to micro and small businesses in one way or another.

Thus, Supplementary Act 123/2006 provided for the unification of all laws relative to the segment, considering the following, among other matters:

- a) Definition of micro-business and small business;
- b) Limits and bans of the framework;
- c) Special and favored status relative to:
 - i. Opening, registration, operation and deletion from the registry;
 - ii. Access to markets and exports;
 - iii. Sales to government entities – priority to government procurement;
 - iv. Simplified labor relations;
 - v. Workers’ audits;
 - vi. Associations;
 - vii. Incentives to technological innovation;
 - viii. Access to justice.
- d) Creation of a new simplified and special tax system, called *SIMPLES NACIONAL* - Special Unified Tax and Contributions’ Collection System for Micro and Small Businesses, and the nullity of the *Simple Federal* system and the remaining simplified systems in place at the time at the state and municipal level.

6. THE SIMPLES NACIONAL SYSTEM

Supplementary Act 123/2006 instituted the Simples Nacional system, a legal-tax system for micro and small businesses, with the following features:

- 1.1. Unified collection, auditing and enforced collection of the following taxes:
 - 1.1.1. 6 (six) federal taxes that made up the Simples Federal system: IRPJ, IPI, CSLL, COFINS, PIS/Pasep, and CPP - Employer's Pension Contribution;
 - 1.1.2. ICMS, a State tax;
 - 1.1.3. ISS, a Municipal tax.
Contrary to the *Simples Federal* system, Supplementary Act 123/2006 established the mandate that States and Municipalities join the new tax system, with the mandatory inclusion of taxes under their jurisdiction.
- 1.2. Shared management by the **Simples Nacional Management Committee** (CGSN), a collegiate body under the Economy Ministry umbrella, with regulatory powers, made up by 8 (eight) members:
 - 1.2.1. 4 (four) members of the Union, represented by the Secretariat of the *Receita Federal* of Brazil (RFB), one of which is the Chairman;
 - 1.2.2. 2 (two) members from the States, appointed by the National Council for Economic Policy (Confaz);
 - 1.2.3. 2 (two) members of the Municipalities, appointed by the Brazilian Association of Finance Secretaries' of the Capital Cities (Abrarf) and the National Confederation of Municipalities (CNM);
- 1.3. Operating autonomy for each federal entity, with full enforcement power for businesses under its jurisdiction. Such autonomy includes the power to approve requests for adhesion to the system, conduct *ex officio* procedures to include or exclude businesses, control the primary or accessory obligations and undertake tax proceedings.
- 1.4. Joint registration in the Outstanding Debt item, except for the cases featuring an agreement with the State or Municipality, in which case the responsibility for the registration in the Outstanding Debt item and the legal proceedings is vested upon the respective courts.

Additionally, the Simples Nacional system defines:

- a) A cap on annual income amounting to R\$ 2.4 Million (USD 1.37 Million);
- b) The participation of corporations and individuals registered as business owners (entrepreneurs);
- c) The non-mandatory option for businesses, industries and service providers, except for certain specific sectors like financial activities and the production and wholesale trade in beverages, cigarettes and firearms, power generation and certified active professionals (lawyers, physicians, etc.).

7. INFORMATION SYSTEMS: SIMPLES NACIONAL TECHNOLOGY SOLUTIONS

From the onset, the *Simple Nacional* Management Committee adopted the principle of using the most modern technological solutions to provide the appropriate conditions for taxpayers to meet the primary and accessory tax obligations and reduce compliance costs.

In the preliminary stage, we defined that all applications required by taxpayers or the tax administrations should be accessed by means of a democratic, easily available, Internet-based technological platform.

To such end, we created the Simples Nacional Portal:

www.receita.fazenda.gov.br/simplesnacional; the portal hosts all the applications required by taxpayers and tax administrations.



Any transaction relative to the system shall be completed only through the portal. Among others, we may list the following:

- System adhesion conditions,
- Selecting the income calculation criterion,
- Calculating the outstanding amount,
- Issuing the collection form,
- Exclusion from the system,
- Statements,
- Queries on legislation,
- Manuals, tax agenda and guidance on the *Simple Nacional* system.

Among the technological taxpayers' solutions, we may highlight the **PGDAS** - Program for the Generation of the Collection Form for the *Simples Nacional* system and the **DASN** – Annual *Simples Nacional* Statement.

8. PGDAS - PROGRAM FOR THE GENERATION OF THE COLLECTION FORM FOR THE SIMPLES NACIONAL SYSTEM.

The PGDAS was devised to facilitate and simplify compliance with the primary tax obligations of the business that adheres to the *Simples Nacional* system.

In short, it enables to calculate the outstanding amount, generate the collection form, retrieve the data from the documents paid and distribute the revenue amounts to the Union, the States, the Federal District and the Municipalities, and the respective reporting activities.

We shall briefly describe the flow of collection, document generation and allocation of collected amounts to federal entities.

9. CALCULATING THE OUTSTANDING AMOUNT

The business reports on the PGDAS all the monthly data relative to gross income: overall income, breakdown by economic activity type, special conditions relative to the tax base and the tax incidence, such as source withholdings, income subject to tax substitution, taxes under the consolidated taxation system, taxes under enforcement stay, etc.

Following, this piece of software:

- a) Automatically calculates the outstanding amounts;
- b) Issues the payment instructions;
- c) Stores the document in its database, even what we call the “allocation” profile, that is to say, the portion of the outstanding amount allocated to each tax and each federal entity.

Payment of Outstanding Amounts

The business makes the payment of the unified collection form with a bar code reading, via the Internet or at a bank belonging to the collection network.

Processing Collection

The collecting bank transfers:

- a) The amounts collected to the centralizing bank – *Banco do Brasil*;
- b) The content of the bar codes on the collection forms to Serpro – a technology company that serves the Secretariat of the *Receita Federal* of Brazil.

Serpro, upon receiving the data from the collecting banks:

- a) Identifies every document paid in its database;
- b) Recovers the “allocation profile” from every document;
- c) Sends the file with the credit amounts to be allocated to the Union, the

States and the Municipalities;

- d) Delivers the data from the documents that taxpayers generated and paid on a fortnightly basis to each federal entity.

Banco do Brasil:

- a) Receives the amounts collected from the collection network;
- b) Receives from Serpro the file with the amounts to be allocated to the federal entities;
- c) Matches the amounts;
- d) Credits the amounts to the federal entities;
- e) Delivers the file with the data on the documents paid to federal entities every fortnight, via an *ad hoc* application by the name of *Transfarqs*;
- f) Informs the public about the total amounts allocated per day to each federal entity.

10. DASN - ANNUAL SIMPLIFIED SIMPLES NACIONAL STATEMENT

The enforcement of the DASN allows the business to file the Annual *Simples Nacional* Statement online.

Most of the data that constitute the DASN are automatically retrieved from the PGDAS. It features information on the overall turnover, broken down by activity type.

A business files only the additional socio-economic data on the DASN in annual amounts, such as the amounts allocated to partners, the number of employees at the fiscal year start and end, total costs and purchased goods.

Once the socio-economic information is completed, the business may file the statement.

Serpro delivers all the data rendered on the statements received to the States and Municipalities every fortnight, via an ad hoc application by the name of Transfarqs.

The Annual Simples Nacional Statement is the basis for the tax credit. Therefore, the taxes payable according to the DASN are calculated and compared with the amounts paid. The difference between the amounts filed and the amounts paid originate the enforced collection proceedings and, immediately, registration in the outstanding debt item.

The outstanding amounts are registered in the Union Outstanding Debt item; enforced collection proceedings are instituted by the National Attorney General's Office on Financial Matters (PGFN, as per the Portuguese acronym), except in the hypothetical case of an agreement between the PGFN and the States and Municipalities, in which case the amounts arising from the ICMS or the ISS are registered as outstanding debt of the State or Municipality, and the respective Attorney General's Office shall initiate enforced collection proceedings.

11. INDIVIDUAL MICRO-ENTREPRENEUR (MEI)

Supplementary Act N° 128 dated 12/19/2008 created the Individual Micro-entrepreneur (MEI, as per the Portuguese acronym) entity, in effect as from 07/01/2009.

The MEI was legally defined as the individual with a registered business – or individual entrepreneur, with an annual gross income of up to R\$ 36,000 (USD 20,500), who undertakes urban trade, industrial or services' activities.

The MEI pursued the following purposes:

- a) Reducing informal business activity in Brazil. According to a 2003 survey by the Brazilian Institute of Geography and Statistics

- (IBGE), 10.3 Million entrepreneurs operate in the informal economy across the country;
- b) Including the employees of such businesses in the social security system.

The individual micro-entrepreneur enjoys a number of benefits:

- a) Payment of tax obligations in small monthly fixed installments – amounting to a maximum of R\$ 62.10 (USD 35), broken down as follows:
- i. R\$ 56.10 (11% of the minimum wage), for the employer's Social Security contribution;
 - ii. R\$ 1.00 for the ICMS;
 - iii. R\$ 5.00 for the ISS.
- b) Exemption from all other federal taxes (IRPJ, IPI, CSLL, COFINS, Pis/Pasep and CPP);
- c) Exceptional facilities to register and obtain operation licenses;
- d) Accessory obligations' waiver: carrying accounting and tax books.

12. INTEGRATION CHALLENGES

Every integration process among tax administrations from different origins– national and sub-national – faces challenges of different nature. In the case of Brazil, we may classify them as follows:

- Legal-constitutional;
- Relative to the autonomy of the sub-national federal entities;
- Relative to the capillarity or territorial and geographic integration scope;
- Relative to security and accessibility.

Legal-Constitutional Challenges

Such challenge poses the following question: how can we succeed in unifying federal taxes and taxes from sub-national entities, which enjoy full tax competency on some of the taxes to be unified.

It is worth remembering that the *Simple Federal* system allowed such unification, although it was not mandatory and not materialized in the end.

A constitutional amendment was required to enable unification: Constitutional Amendment N° 42, of 2003, which amended Article 146 of the Federal Constitution – as explained under “Legal Framework for Integration”.

Said amendment enabled the enactment of Supplementary Act N° 123 of 14 December, 2006, creating the *Simples Nacional* system.

In addition to instituting the *Simples Nacional* system, Supplementary Act N° 123 determined that registries, collection, enforced collection and auditing should be shared.

This made the *Simples Nacional* system very different in its essence from other integration models, since it **did not require an agreement** among entities, all the elements relative to the system being proprietary to all tax administrations.

Challenges Relative to the Autonomy of Sub-National Federal Entities

This type of challenge may be described as follows: how to preserve the authority of the sub-national federal entities in the administration of unified taxes.

The challenge is being met in several forms.

Shared Management

The first is the implementation of Shared Management. The *Simples Nacional* system is managed by the *Simples Nacional* Management Committee (CGSN), a collegiate body under the Economy Ministry umbrella, with regulatory powers, made up by members of the Secretariat of the *Receita Federal* of Brazil (RFB), of the States and Municipalities.

Such body features full enforcement powers, at the same time it is subordinated to taxpayers and all the tax administrations. Its decisions are handed down in the form of resolutions.

Decisions are made by a qualified majority, which leads to the pursuit of consensus in each decision adopted. This procedure grants sub-national federal entities effective power over matters relative to the system, without subordinating them in any way to the exclusive central government interests.

Legislative Autonomy

The second form of maintaining autonomy of sub-national entities is by preserving legislative autonomy, although not to a full extent.

The States, the Federal District, and Municipalities may decide on the ICMS or ISS tax rates that shall apply in their territories, caps being only the constant percentages in Supplementary Act N° 123/2006. Therefore, they may establish tax benefits greater than those foreseen in the *Simples Nacional* system, by way of exemptions or tax rate reductions. Benefits shall be determined globally or by economic activity sector.

Additionally, they shall establish a fixed monthly amount for the ICMS or the ISS in the case of businesses with annual gross income amounting to R\$ 120 Thousand (USD 68.6 Thousand).

Finally, the States with a share in the national Gross Domestic Product (GDP) of up to 5% shall establish sub-limits for the purpose of collection of the ICMS and the ISS in their territories, as follows:

- a) States with a GDP share of up to 1% shall establish R\$ 1.2 Million (USD 684.7 Thousand) as the sub-limit;
- b) States with a GDP share ranging between 1% and 5% shall establish R\$ 1.8 Million (USD 1.03 Million) as the sub-limit.

It is worth highlighting that the sub-limit does not affect the global limit for federal tax collection, which always remains on the same level – R\$ 2.4 Million (USD 1.37 Million). The business shall be excluded from the *Simples Nacional* system only upon exceeding the total limit.

Operating Autonomy

Shared management of the *Simples Nacional* system is limited to the regulation and joint specification of the solutions applicable in the system. Everyone establishes, jointly, the parameters for the roles of businesses and tax administrations in the system.

Meanwhile, the Management Committee lacks an operative branch. It is not an executive body, but a merely deliberative one.

Therefore, the tax administrations are the ones taking effective action. The RFB, the States and the Federal District and Municipalities, concurrently:

- a) Authorize businesses to opt for the system, by means of option requests' deferral;
- b) Carry forward official procedures to include and exclude

- businesses;
- c) Undertake administrative collection of outstanding amounts;
 - d) Audit businesses to verify compliance with primary and accessory tax obligations;
 - e) Conduct the contentious-administrative process concerning non-deferral proceedings for options, business exclusion and tax proceedings.

Challenges Relative To The Capillarity Or Territorial And Geographic Scope

This type of challenge may be described as follows: in what way can we contribute so that the 26 States, the Federal District and 5,564 Municipalities may effectively enforce their tax capacity in the *Simple Nacional* system.

The difficulties arise from the features of Brazil. All federal entities, including municipalities, enjoy tax competency. The country has the fifth largest territorial area on the planet (8.5 Million km²) and ranks fifth in terms of population, with 191 Million inhabitants.

The solution to this issue was to use the same technology platform deployed for taxpayers – a single platform with Internet-access enabled to all the federal entities.

All the applications used by federal entities are included in the *Simple Nacional* Portal, at the following address www.receita.fazenda.gov.br/simplesnacional.

The portal features an exclusive page for tax administrations, by the name of “access for federal entities”.

All proceedings may be completed through this site. Some of the applications available are:

- Deferral or non-deferral of option terms,
- *Ex officio* proceedings: business inclusion and exclusion,
- Queries on the data businesses file regarding calculations and annual statements,
- Forwarding and reception of files,
- Outstanding amount calculation simulator.

On the *Simple Nacional* Portal, federal entities may also find the manuals of the applications and the layouts of the files available.

Challenges Relative to Security and Accessibility

This type of challenge may be defined as follows: in what way may we make access democratic without detriment to security.

The Management Committee determined that in order for federal entities – including the RFB - to access any application in the *Simple Nacional* system, the use of digital certificates should become mandatory.

The second condition was the creation of appropriate access controls, with the definition of user categories and access profiles.

We Divided users into three Classes

Master user: only one per federal entity. This user may access all applications and control all accesses in its organization. Also, register registrar users and ordinary users.

Registrar user: this user may access applications and also register ordinary users.

Ordinary user: this user may access the applications for which he/she has obtained clearances.

Access Clearance Decentralization

Federal entities' autonomy is also protected in terms of application access.

To such end, clearances have been decentralized. The State, the Federal District and the Municipality individually determine their users in each application.

As we have stated before, each federal entity features a master user who is responsible for defining users and clearing access to the applications in their organization.

The initial master user should be the person responsible for the federal entity in the RFB registry.

Users' modifications (including the master user) and access clearances are not performed in the application available to such end in the *Simple Nacional* Portal. Paper or communications via the postal service are not used.

This is an unprecedented model. The key difference with respect to the other integration models lies in the fact that the RFB server does not register access clearance; this becomes an autonomous function of the federal entity.

13. LIMITS TO INTEGRATION

We may state that upon overcoming our challenges, there are no limits to integration among the tax administrations of central and sub-national governments.

We believe that the main limit should be respect for autonomy. Subordination of any nature among federal entities or their officials is inadmissible. One should not feel above or below the other.

It must be clearly understood that each federal entity assumes an autonomous and fundamental role, determined by the Federal Constitution. There are no hierarchies among competencies, but there is a constitutional distribution of competencies.

The legal and operating model created for the *Simple Nacional* system enables to fully share the tax data and competencies concerning micro and small businesses that opt for the system.

In this respect, when an entity completes a proceeding within the system, it is doing so on behalf of everyone at the same time. When an entity collects outstanding amounts, it is benefiting everyone, since the payment of taxes has been unified. The same applies with audits: the tax audit is not limited to a tax, but spans all taxes under the *Simple Nacional* system.

All share a single and global taxpayer vision. They enjoy access to the same information – it is possible to follow all procedures that taxpayers and the other entities perform.

The model enables to search for legislative and procedural regulations, such as the provisions regarding tax noncompliance allegations, income omission criteria, the administrative tax process, tax and contentious proceedings, etc.

Finally, we may mention a strong collaboration and exchange of experiences among officials from all tax administrations, in the technical groups as well as the Executive Secretariat, the Management Committee, in the training events carried out across the country, and in national and regional seminars.

14. PRESENT CHALLENGES

The Simples Nacional system still faces great challenges. We believe that one of the key ones is the reorganization of accessory tax obligations.

Great progress has been made after implementing the mandatory simplified annual statement and the unified payment of taxes in a single document.

Notwithstanding, much remains to be done. One of the actions refers to the democratization of the Electronic Tax Report, with the adjustments required to enable its adoption by the micro and small businesses that opt for the *Simples Nacional* system.

Another central action is adapting the Digital Tax Accounting System – EFD - for opting companies. The current EFD is unfit for the specificities of micro and small businesses.

Such actions are being developed by the bodies that constitute the *Simples Nacional* Management Committee jointly with technical experts and leaders of the ENCAT – National Conference of Tax Coordinators and Administrators from the State Level.

15. INTEGRATION MODEL POTENTIAL

We envision potentially extending the *Simples Nacional* integration model to other taxes and federal matters, provided an appropriate legal framework is in place.

Under the same assumptions, Supplementary Act N° 128 of 2008 amended Supplementary Act N° 123, granting regulatory power to the Committee for the Management of the National Network to Simplify the Registry and the Legalization of Corporations and Businesses (CGSIM), under the umbrella of the Ministry for Development, Industry and Foreign Trade. We could simply call it “Management Committee of the National Registry of Corporations”.

Although it is a recently created Committee, its purpose is to change the current situation in our country concerning registration, operating licenses, modifications and deletion of businesses from the registry, reducing bureaucracy and the time required to materialize the respective procedures.

A legislative proposal on the creation of federal committees for government procurement and technological innovation areas is under consideration.

As regards the tax area specifically, the *Simple Nacional* system could be applied either in part or in full.

Under the full integration modality, the experience could become an incentive to the creation of a National Value Added Tax – NATIONAL VAT, unifying the current taxes on production and consumption.

In one way or another, it is a complex, controversial and sensitive issue that calls for a discussion in the context of a future tax amendment.

In the partial integration model, we believe that Brazil requires a legislative amendment to make the exchange of information from registries, transactions and socio-economic information between the central government and sub-national entities more flexible for tax administrations.

The effectiveness of the tax secrecy principle among tax administrations becomes senseless, and thus calls for information exchange agreements. We understand that tax secrecy shall be a responsibility of the administration receiving the information, using it strictly upon request of the government authority.

Therefore, we endorse the amendment of the National Tax Code to enable the free exchange of data and information among the tax administrations from the three levels of government.

16. CONCLUSION

As we emphasized before, integration between the Central Government and Sub-national Governments is possible and positive.

The SIMPLES NACIONAL is the great example of federal integration in Brazil.

After barely over three years of implementation, we may refer to great challenges and successes. We should highlight the creation of the legal framework underlying the system, the shared management mechanism, respect for the autonomy of the federal entities and the intensive use of IT with a democratic Internet platform available to everyone.

By law, the *Simples Nacional* system adopted the effective integration model, with free access to applications, data and information by the federal entities, without requiring agreements. Security is protected with digital certificates and access control to applications is decentralized for direct management by the States, the Federal District and the Municipalities.

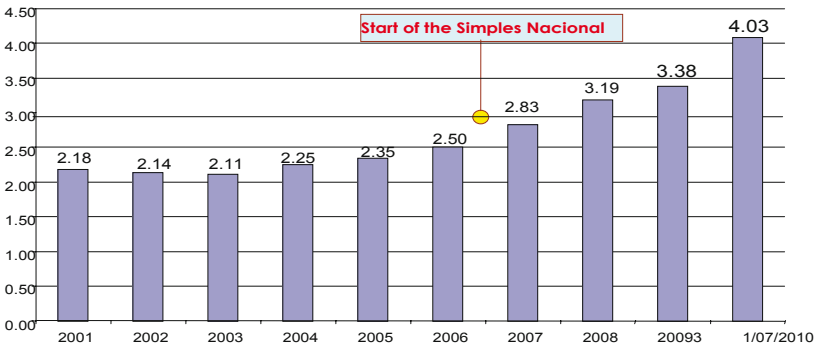
Results have been excellent – for businesses and tax administrations alike.

We may advance with integration. The model may serve as an incentive to shared management of other taxes, either totally or partially, and also for other federal matters.

Information systems play a key role in every integration process as facilitation tools. Once the legal barriers are overcome, technology enables the development of open solutions to allow all stakeholders access to the same functionalities simultaneously, expeditiously and securely.

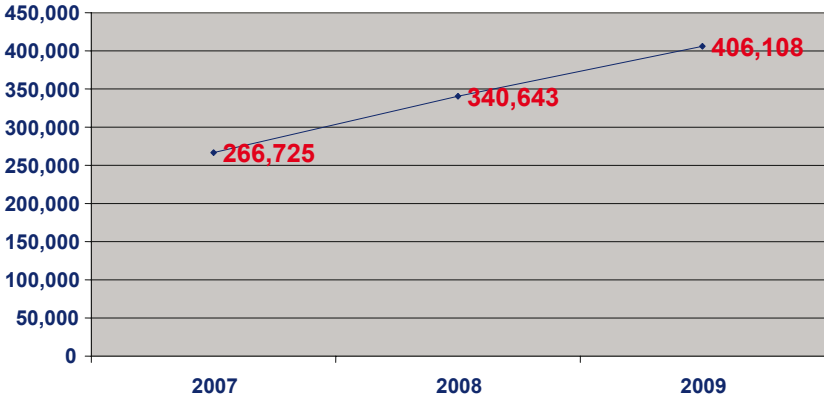
STATISTICS

Number of Opting Businesses (in Millions)



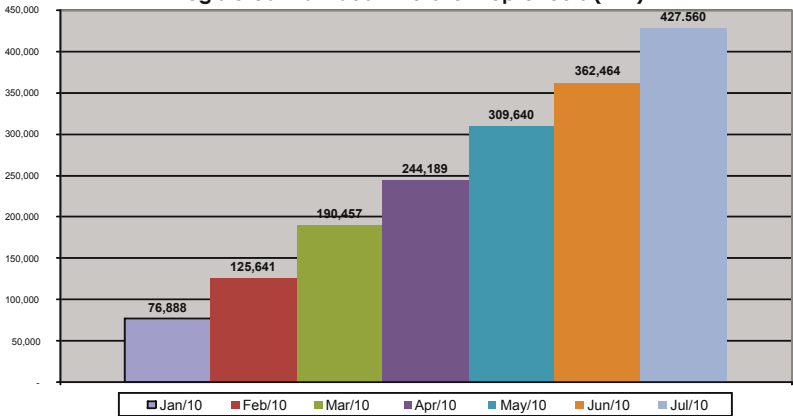
STATISTICS

**INFORMALITY REDUCTION
OPTION PERIODS - BUSINESSES STARTING ACTIVITIES**

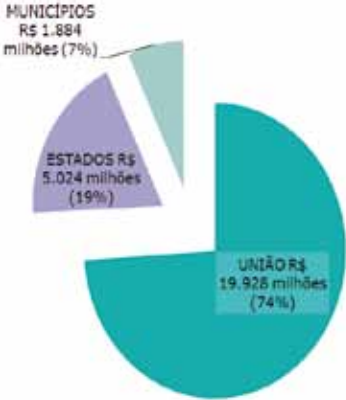


STATISTICS

**REDUCING INFORMALITY – Overall number of
Registered Individual Micro-entrepreneurs (MEI)**



STATISTICS



COLLECTION UNDER THE SIMPLES NACIONAL - 2009 – R\$ 26,836 Million (USD 15,334 Million)

Union collection under the *Simples Nacional* accounts for 4% of Revenue Managed by the RFB

- MUNICIPALITIES R\$1,884 Million (7%)
- STATES R\$ 5,024 Million (19%)
- UNION R\$ 19,928 Million (74%)

THE TREASURY IN THE CUBAN TAX ADMINISTRATION

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***Contents:** 1. Introduction.- 2. General description of the state financial administration system of the Cuban state.- 3. Brief overview of the tax system and the tax administration in Cuba.- 4. The Cuban treasury system.- 5. The transfer of treasury functions to the Cuban tax administration.- 6. Impacts of the assimilation of treasury functions in the Cuban tax administration.- 7. final remarks*

1. INTRODUCTION

Tax Administrations play a key role in the Government Administrations of modern States and in fulfilling tax policy objectives, since they secure the bulk of State financial resources to support government spending programs and, therefore, meet relevant social needs.

Strong and effective Tax Administrations are elements that reinforce the institutional consolidation and governance of States and constitute effective tools to combat social inequality.

Thus, it is not surprising that this kind of institution represents one of the best structured and effective organizations within the public sector of many countries; it even constitutes a trend to the extent their consolidation and digitalization enables to assign them non-fiscal functions, different from those strictly arising from controlling tax obligations, such as foreign currency exchange controls and extension of subsidies, among others.

The Cuban Tax Administration is no exception, since as of May 2006, barely 11 years after its creation, it was assigned functions inherent

in the Treasury System, given the need for it to operate under the verticality principle, in a national Organization subordinated to the Ministry of Finance and Prices, an Agency of the Central Government Administration that governs this area.

In order to reduce control gaps for a relevant taxpayer universe we need to rely on direct tax-relevant information for the audits we conduct; and with a view to saving human, material and financial resources, the National Tax Administration Office (ONAT) assumed the new functions assigned with the strategic notion of carrying forward the integration of tax and treasury processes, focusing the main efforts on the procedures to render active assistance to taxpayers, registry control, collection control, extensive and intensive control of tax obligations, revenue collection and refunds.

2. GENERAL DESCRIPTION OF THE STATE FINANCIAL ADMINISTRATION SYSTEM OF THE CUBAN STATE

In the 90s, our country undertook an economic transformation process that included the organization of public finances. To this purpose, we enacted Act No. 73, "On the Tax System", on 4 August 1994, as one of the measures aimed at reversing the financial imbalance affecting the economy. This Act was followed by Executive Order No. 192, dated 8 April 1999, "On the Financial Administration of the State", whose central purpose was the organization of the planning, execution and control processes for the government financial resources in accordance with and as a function of economic and social development. This Executive Order was timely in the face of the need to adjust regulations on the State financial administration to the economic-financial transformations underway in the country.

Said Executive-Order No. 192 defines the notion of the Cuban Government Financial Administration System as the set of principles, norms, systems and administrative institutions and procedures that enable to obtain government financial resources and their application in achieving the objectives of State, to meet the collective needs of society.

Based on the above, the Cuban State Financial Administration System pursues two essential objectives, which are enshrined in said norm:

1. Establishing the principles to plan, organize, manage, execute and control procurement and effective and efficient use of government financial resources to enforce policies, programs and render State services, that is to say, pertaining to public sector entities.

2. Developing systems that enable to rely on timely and accurate information on the financial performance of the public sector for management, evaluation and control of the performance of bodies, agencies, administrative directorates, government-owned businesses, units, unions and other entities in which the State is a stakeholder.

Five systems constitute the Financial Administration; they are closely related, inter-dependent and integrated: the Tax System, the Budget System, the Public Credit System, the Treasury System, and the Government Accounts System.

3. BRIEF OVERVIEW OF THE TAX SYSTEM AND THE TAX ADMINISTRATION IN CUBA

Act No. 73, "On the Tax System" established a tax structure made up by eleven taxes (Earnings, Individual Income, Sales, Public Services, Special Tax on Products, Real Estate, Land Transportation, Transfer of Assets and Inheritance, Stamp Taxes, taxes on the Use of Workforce, and tax on the Use of Natural Resources and the Environmental Protection Tax), a contribution (to Social Security) and three service charges (Toll, Airport Services and Commercial Announcements and Advertising Signs).

On the other hand, Act No. 169 of 10 January 1997, establishes the general regulations and administrative proceedings of the tax system and is based on: endowing the Tax Administrations with the general rules and proceedings to enforce Act No. 73, implementing tax proceedings on a widespread basis, harmonizing relevant legislation on the matter and modernizing tax proceedings and harmonizing them with international tax legislation.

The highest tax authority is the Minister of Finance and Prices; the ONAT operates under the umbrella of this Ministry.

The competency of the Tax Administration spans management, control, assessment, collection and auditing of the taxes enforced by law, and is extended to the enforcement of surcharges and sanctions, as applicable. Taxes are paid in banks and the main forms of taxation are self-assessments and withholdings.

The prevailing principles of the organizational model applied by the Cuban Tax Administration are: promotion of voluntary compliance with tax obligations and creating an appropriate risk capacity.

The system to avoid noncompliance is constituted by: surcharges, tax penalties, and enforced collection.

The taxpayer is entitled to appeal the acts of the Administration, by means of administrative proceedings (based on Appeals for Amendment and Appeals to Higher Instances) as well as court proceedings (by a Demand in the Civil, Administrative and Labor Division of the Court of jurisdiction) upon failure of the administrative appeal.

Pursuant to Agreement No. 2819, of 25 November 1994, the Executive Committee of the Council of Ministers approved the creation of the ONAT, whose objectives, functions and attributions were approved by Agreement No. 2915, dated 30 May 1995, by the Committee itself.

The ONAT structure is based on the general principle of a single Tax Administration in the national territory divided into three levels.

The first level, the Central Office, is the highest executive, management, coordination and control body in the tax administration system; it is also in charge of centralizing statistical information and designs the methodologies and procedures.

The second level, with management, control and executive functions, are the Provincial Offices, in each province in the country. This intermediate level is responsible for guiding, consulting, and supervising the work of the municipal offices of the province.

The third level, with fully executive functions, is formed by the Municipal Offices in the municipalities according to the country's political-administrative division, and with a dimension according to the number of taxpayers, collection rate and territorial extension.

The main functions of the ONAT consist in: overseeing the strict enforcement of tax legislation; promoting conditions for voluntary compliance with tax obligations; manage the Taxpayer Registry and their accounts' audits; performing the administrative assessment of the tax debt, as applicable and acting pursuant to the law; auditing compliance with tax obligations, understood as such inspections, investigations and tax audits; implementing administrative proceedings to enforce collection of tax debts, as provided for by law; impose surcharges and penalties for breaches of tax obligations; and deciding on the claims filed against administrative acts.

4. THE CUBAN TREASURY SYSTEM

Executive Order No. 192 defines the Treasury System as the set of institutions, norms and procedures that apply in collecting financial resources and the payments that constitute the flow of cash funds of the public sector, in their internal transactions and transactions with entities from other economic sectors, as well as the custody over the financial resources produced.

This Treasury System shall guarantee compliance with the following objectives:

- Drafting the budget that includes collection of State revenue as well as their distribution to pay obligations, in agreement with the budget allocations.
- Controlling cash flows according to payment obligations and availability of resources, pursuant to the cash unit principle.
- Issuing T-bills to cover seasonal cash imbalances.
- Custody over the securities owned by the State or third-parties that are legally entitled to hold them.
- Participating in the development of monetary issues in financial policies for the public sector of the country.
- Administrating, in coordination with the Central Bank of Cuba, the liquidity of the public sector, in each economic cycle, determining policies to hold and use cash balances.
- Holding State accounts in support of the Treasury System in the entities of the National Banking System and receiving the information required from them.

The institutions in charge of executing and participating to materialize these objectives are lead and governed by the Ministry of Finance and Prices, headed by the General Treasury Directorate of this Ministry, which is responsible of proposing and overseeing compliance with the policies in place, issuing regulations and procedures within their competencies and guaranteeing integral process supervision.

An important time in the development of the Treasury System in Cuba was the approval of the Single Treasury Account by Resolution No. 66, on 1 March 2004, by the Minister of Finance and Prices.

This mechanism consists in the centralization into one or several accounts, according to the budget levels implemented in the country (Central, Provincial and Municipal), of the overall State Budget resources and, based on the existing availabilities, enables to review and authorize the payments of the public sector in order to make the financial management task more efficient. This system allows prior state control, with authorized payments that meet the authorized levels and authorized expenditure items, with the main purpose of achieving efficacy and efficiency in the Budget allocation.

The central objectives of the Single Treasury Account in our country are:

- ✓ Strengthening internal control on the use of budgetary resources. As a preliminary review mechanism, by serving as a filter that detects superfluous, illegal or undue expenditures by public administrations' service units, enabling savings in government spending.
- ✓ Eliminating immobilization of idle financial resources in public administrations' service units, by centralizing them in a Single Account.
- ✓ Increasing financial discipline in the activity featuring a budget allocation, establishing payment accounts as caps to budgetary outlays in each entity.
- ✓ Avoiding the shortage of financial resources to meet the needs of the public administrations' service units according to centralized resource-management policies.
- ✓ Reducing the payment cycle for suppliers of the public administrations' service units, contributing to the reduction of accounts payable and, consequently the outstanding payments' chain.
- ✓ Relying on accurate and timely information of the Budget's cash application.
- ✓ Contributing to meet the price policy structure.

- ✓ Determine the responsibility of the highest administrative authorities over the public administrations' service units in the use of financial resources, by means of official payment authorization requests.

The main users of the treasury services within the Single Account mechanism are the public administrations' service units in the three budgetary levels and all such entities related with credits, subsidies and budgetary allocations.

The implementation of a Single Treasury Account mechanism or system does not entail that the public administrations' service units integrated therein shall lose the great responsibility of overseeing and accounting for the budget approved for them, since the budget administration remains a function of the public administrations' service unit, with important functions under its responsibility, such as the bidding process for the acquisition of goods and services required to carry forward their organizational purpose; recording the entity' economic events, as defined; overseeing the purpose and rational use of material and human resources under its authority; and systematically evaluating the budget allocation process, delivering the information required and submitting the modifications required to a higher authority, as defined in the budgetary guidelines and rules.

This operating scheme, with the applicable government approvals, started in February 2004 as an experience. It incorporated the public administrations' service units of municipal jurisdiction in the municipalities of Nueva Paz, Los Arabos and Bolivia, in the provinces of La Habana, Matanzas and Ciego de Ávila, respectively.

In May 2004 this experience was made extensive to the rest of the municipalities in the country pursuant to the implementation schedule, to be completed in June 2005. Its implementation started through the Municipal Finance and Price Directorates, subordinated to the Administration Councils of the Local Public Bodies.

5. THE TRANSFER OF TREASURY FUNCTIONS TO THE CUBAN TAX ADMINISTRATION

In February 2005, barely nine months after starting the initiative to extend this process to the rest of the national territory, the incorporation of the public administrations' service units in the provincial and national levels started in the province of Ciego de Ávila, under the responsibility of the ONAT.

On 30 September 2005 the Executive Committee of the Council of Ministers issues Agreement No. 5539, which approves the consolidation of the experience of the province Ciego de Ávila and makes it extensive to the province of Matanzas, and by Agreement No. 5621, of 3 March 2006, said government body was incorporated in the Special Municipality of Isla de la Juventud and the Cienfuegos and Granma provinces.

Finally, said Committee issued Agreement No. 5675, dated 8 May 2006, which determines the transfer to ONAT of certain functions inherent in the Treasury System, with regards to the Central Budget, Provincial Budget and Municipal Budget, incorporating the rest of the public administrations' service units into the Single Treasury Account.

From that moment, the operations related with this mechanism are undertaken by the Treasury departments of the Municipal and Provincial ONAT Offices, headed by the Treasury Directorate of their Central Office, which called for a previous modification of the Organization's organizational chart and increasing the number of officials therein.

The transfer of the Treasury functions to the ONAT was essentially motivated by the need to rely on a Single Treasury Account mechanism that operated under the verticality principle, directly reporting on the performance of its functions to the Ministry of Finance and Prices, as a governing agency in this area.

At the same time, it was necessary to integrate the processes to raise government financial resources with the allocation processes, in order to rely on timely information and assessments of cash resources, as well as achieve efficiency, effectiveness, optimization and rationality in the use of resources.

Likewise, the Treasury areas were required to operate effectively as an equivalent budget spending mechanism in the public administrations' service sector, specifically as regards local budget expenditures. At the same time, they would become integrated as a working tool in the assessment process to contribute to the appropriate decision-making process for budgetary adjustments as well as solutions for cash imbalances.

The decision to grant verticality to the Single Treasury Account mechanism, subordinated to the Ministry of Finance and Prices, is central in attaining the objectives set forth to the extent direct subordination enables the Treasury to follow a method and rely on operational consulting and controls, promotes technical specialization

on the matter and reaches the level of counterbalances required in any control mechanism for decision-making independence and impartiality that enable compliance with the regulations in effect.

Creating a third entity to perform the Treasury functions with a Single Account, directly subordinated to the Ministry of Finance and Prices, entailed a very high financial cost for the country, which was not in a financial condition at that time, and would delay the system expansion and consolidation.

The transfer of the treasury functions to the ONAT, regardless of the level of investment inevitably required in the generalization of the Single Account mechanism across the country, optimizes the use of material and human resources since it relies on infrastructure in the 169 municipalities, with experience in the implementation of management and organization systems.

The essential aspects of transferring these new functions to the ONAT were regulated by Resolution No. 146, of 31 May 2006, of the Minister of Finance and Prices, repealed by Resolution No. 83, dated 11 April 2008, which is currently in effect. The process to transfer functions was conducted gradually.

The following are the treasury functions transferred to ONAT:

- Drafting, updating and control of the Annual Cash Program application in the three levels of government.
- Administration and control of cash flows and the Cash balance in agreement with the payment obligations and other budgetary obligations and the availability of existing financial resources.
- Administration of bank accounts under the Treasury System.
- Review of the payment or financial outlay requests from a current account in the Treasury System that operates at its level, based on their strict analysis, to determine that the relevant request meets all the regulations established in the Regulatory Treasury Procedures, issued in that respect or in any other legal document issued by a competent authority, based on the following notions:
 - a) Payment of budgetary obligations, accounted as such by the public administrations' service units incorporated in a Treasury System Account operating at its level, serving the requests made by such entities.

- b) Allocation of financial resources and subsidies to public companies and other entities of the public or private sector in line with regulations in effect and in response to the pertaining requests by the applicable Directorate of Finance and Prices of the Local Public Body, which is the authorizing entity by its own authority or by delegation thereof.
 - c) Transfer of financial resources by adjustments to revenue collected, which were mistakenly transferred to a Treasury System Account that operates at its level (corrective action), in response to the requests made by the Collections' area of the same Municipal Office of the ONAT.
 - d) Refunds to individuals and/or corporations of incorrect or excess revenue transferred to a Treasury System Account that operates at its level, in response to the pertinent requests by the applicable instances, as defined.
 - e) Creation, expansion and refunds from the Fixed Fund for Small Payments and Revolving Funds authorized by a Regulatory Treasury Proceeding, set up in the public administrations' service units incorporated in a Treasury System Account operating at its level, in response to its requests.
- Registration and reporting of the operations conducted in the Treasury areas, bank reconciliation of the treasury accounts and operations related with internal controls and accounting.

In addition to these functions, it is worth highlighting the specific functions performed in the municipal Treasury area, which serves the public administrations' service units under the municipal, provincial and national sphere based on their territory, constituting the primary and key level of operation for this mechanism. The following are the fundamental functions:

- Issuing the payment instrument or transferring the financial resources applicable for the authorized expense items in each Treasury System Account operating at its level, once the applicable audit is conducted, guaranteeing their origin and legitimacy.
- Controlling the evolution of Cash income in the Treasury System Accounts operating at its level, reporting to the relevant parties the noncompliance with the provisions in the Cash Flow Program for said accounts, in order to find a solution thereto.

- Guaranteeing cash balance and liquidity in each Treasury System Account operating at its level, without issuing any payment instrument that has not been considered in the Cash Flow Program for said accounts, by a previously authorized Availability Account, and/or when the financial resources required to meet them are unavailable.
- Implementing controls in order to not exceed the Availability Account authorized in the Cash flow Program for the Treasury System Accounts operating at its level, for each public administrations' service unit requesting outlays of financial resources, via the budgetary notifications established for each case.
- Guaranteeing that the automatic debit items authorized by a Regulatory Treasury Proceeding for a Treasury System Account operating at its level, features a respective Availability Account authorized in the Cash Flow Program of said accounts, in order to rely on the amount required to meet them.
- Granting revolving funds authorized by a Regulatory Treasury Proceeding to the public administrations' service units incorporated in a Treasury System Account operating at its level, exerting control thereupon and making the applicable refunds.
- Controlling the advance payments made by a Treasury System Account operating at its level, guaranteeing its timely and accurate assessment, pursuant to the applicable provisions.
- Carrying a complete and updated record for each party requesting financial resources from a Treasury System Account operating at its level, as set forth in the regulations in effect or in a Regulatory Treasury Proceeding.
- Issue periodical information for the public administrations' service units incorporated in a Treasury System Account operating at its level and for other parties requesting financial resources' outlays, on the balance of its Availability Account, according to the applicable means and time.
- Issuing information to the higher administrative authority and other parties, as defined, regarding the situation and balance of each Treasury System Account operating at its level, according to the applicable means and time.

- Issuing information on the requests rejected on the grounds of breaches to provisions or other causes, and submitting it to the higher administrative authority and other parties, as defined, according to the applicable means and time, regardless of the legal proceedings warranted by the breach detected.
- At least once a month, conduct joint analyses with the bank where the Treasury System Accounts that operate at its level are held, regarding the difficulties faced in treasury activities.

6. IMPACTS OF THE ASSIMILATION OF TREASURY FUNCTIONS IN THE CUBAN TAX ADMINISTRATION

The transfer of such functions significantly increased ONAT responsibility and commitment, since in addition to guaranteeing controls in the enforcement of tax regulations, it assumed responsibility over the management of State funds in line with the budget authorizations issued and the control of government expenditure, in terms of consistency and rationality of payments.

In the course of more than four years of ONAT performing the treasury functions vested upon it, the organization faced a significant impact, mainly owing to:

- The design of a strategy to educate and train the key directors and experts, and diversify and perfect the human resources' hiring process and their performance indicators.

The main purpose of this strategy was to achieve stability with regards to the human resources working in the Treasury areas and sustain an ongoing training process since we faced great turnover in the early stages and the staff was under-skilled. This called for an ongoing and cyclical training process based on self-training initiatives, on-the-job training and classroom as well as distance education, in addition to meetings and national and regional treasury workshops, as part of the feedback and experience-exchange process required in this activity.

- The establishment of working systems to enable the necessary expediency and assistance in the formalities filed, and guaranteeing control over the payments in the activity of the public administrations' service units.

The working systems' main purpose was to enhance service rendering to Treasury customers.

In this regard, it has been extremely difficult to implement the daily automated accounting entries' registration system in the municipal Treasury departments and their daily matching with bank reconciliations, which is deemed vital to issue the payment instruments in the term defined, as well as the daily delivery of the Availability Account Balance to the entities incorporated in the Single Treasury Account.

The fundamental reasons have been the operational problems and, in the beginning, the understaffing and poor understanding of the daily need for the Availability Account Balance, its delivery by the Treasury departments as well as their reception by public administrations' service units to know the cash available and make the right decisions in the administration and management of the resources allocated thereto.

Customer service and the quality of the reconciliation processes between the Treasury and the public administrations' service units required ongoing improvement. In this sense, we took advantage of the taxpayer-service experience from the Tax Services areas.

Therefore, instructions were issued on how to organize the office hours, on the main notions that the corresponding Treasury department had to incorporate on the public administrations' service units, their social role and operations. Specifically, those with larger operation volumes, or those undertaking social activities of great relevance for the country, such as education and health.

Active assistance actions were significantly increased, prioritizing the communication of the formalities required and the main regulations issued; quarterly seminars were defined in order to provide feedback on the service rendered; other existing facilities were made available to Treasury customers such as the Telephone Answer and Information Service (SERTERO, as per the Spanish acronym) and the electronic messaging suite made up by the Automated Information Service (SIA, as per the Spanish acronym), the Specialized Queries' Service (SEC, as per the Spanish acronym), the Information Service by Subscription (SIS, as per the Spanish acronym) and the Assisted Information Service (SIO, as per the Spanish acronym), in addition to the brochure by the name of "The Treasury system and its Formalities", very similar to others of a tax nature.

We implemented a daily review system on all the aspects that

could impair good service rendering, including surveys to measure quality of service, immediate reports to the higher organizational level, in order to expedite the decision-making and solutions process, as well as process complaints as established in the "Complaints' Proceedings Rules" of the Organization, enforced by Resolution No. 92, of 26 May 1999, by the Head of the ONAT, as partially amended by Resolution No. 82, date 1 April 2002, by the Head of the ONAT.

The automated systems already in place were used to process quality of service surveys (SAEnCal, as per the Spanish acronym) and complaints (Assistance 2000).

Treasury customers received two IT applications very widely spread among taxpayers, to facilitate voluntary tax compliance: the Centinela, for early alerts on payment deadlines for customer-defined obligations, and the SACR-09, to draft the model contributions to the State Budget.

Additionally, the reconciliations with the Banking System were systematized to address any problem arising from the payment instruments issued in favor of goods and services' providers, as well as debits and credits in the Single Treasury Account, not identified correctly in the Accounts' Statements.

New adjustments in their internal control system, with important levels of counterparts, in order to oversee the operation of a mechanism with numerous risks.

The main purpose of these new adjustments was to reduce the gaps that facilitate improper behavior and acts of corruption, applying mechanisms already in place for tax processes.

To such end, we significantly increased concrete actions to increase the demands regarding the correct and timely update of risk analyses, the Prevention Plan and the trials and reviews. We consolidated the supervision teams at the provincial and central level, in the Treasury area as well as the Internal Control and Audits area; we developed remote IT audits to Treasury databases; and we increased the number of annual supervision and control actions in the Treasury area and the specific tax areas related therewith.

- The expeditious adjustment of the automated system supporting the Treasury department and its constant improvement, in pursuit of applications to enable better management and control.

In the Treasury automation process, we applied the knowledge gathered by the IT area with respect to local area network (LAN) and wide area network (WAN) administration and database management based on Oracle client-server applications, although we installed SQL – Server in the Treasury.

Likewise, we increased the use of the Organization's incumbent communications' platform on Frame Relay technology.

- The integration of working processes: tax and treasury management, prioritizing registry control, collection control; extensive and intensive tax obligations' control, collection and tax refunds.

The general notion of integration is that the Tax Administration deems all Treasury customers to be taxpayers.

As regards registry control, we evolved towards a Single Record, considering that the public administrations' service units incorporated in the Single Treasury Account mechanism featured two records at the start of the transfer process, one in the Taxpayer Registry area, and another one in the Treasury area as Treasury customer, which entailed duplication of information, a potential for mismatching updates in both records, duplicated proceedings for the taxpayer - customer, among other difficulties.

The Single Record for the Tax Administration customer is carried under the scope of the Taxpayer Registry and arises from the gradual implementation of reconciliation mechanisms between the two areas involved.

As regards collection control, efforts were centered on the Treasury area minimizing the transfers of financial resources based on revenue adjustments that were mistakenly transferred to a Treasury System Account (corrective actions), in response to the requests by the Collection area, taking advantage of the fact that in Cuba, the Bank is the only Tax Administration collection agent.

Both areas established a daily reconciliation mechanism based on the information included in the Account Statements of the collections and treasury accounts, in close collaboration with the bank in which such accounts are held.

As regards extensive control of tax obligations, its main purpose was to maximize tax compliance of the public administrations' service units incorporated in the Single Treasury Account mechanism, and minimize administrative assessments of debts owing to noncompliance. The latter is based on the fact that tax obligations are considered in programming requests for financial resources by the public administrations' service unit for the Goods and Services Expenses' item, while tax debts arising from noncompliance, which also include applicable surcharges and penalties, are not programmed in advance. Therefore, they shall be met through the entity's request for financial resources for the Goods and Services Expenses' item, to the detriment of the actual objective thereof.

Notwithstanding, in this case the collection process is simplified. In other words, coercive collection of the tax debt is very simple, since the Treasury area relies on the financial resources required to finance it immediately, provided there is availability in the financial resources' request program of the public administrations' service unit for the Goods and Services Expenses' item.

Nevertheless, the working philosophy consists in not resorting to this mechanism of debt assessment and collection, since the payment of taxes may be planned and thus, guarantee the contribution to the State Budget in the appropriate and timely amount.

The intensive control of tax obligations is another tax process in which the Treasury expertise may be applied. In this regard, statistics in the Treasury areas on the levels of payment requests rejected thereby and the related causes, per supplier and public administrations' service unit, constitute an additional criterion to select taxpayers for audits in the Auditing area.

On the other hand, the Treasury area information on the payments made to goods and services' suppliers of the public administrations' service units incorporated in the Single Treasury Account mechanism constitute a valuable source in estimating their taxpaying capacity, mostly in terms of the Sales' Tax and Earnings' Tax.

Process integration was also applied in the refunds of incorrect or excess revenue transferred to a Treasury System Account, in response to the requests by the corresponding instances, as established.

In Cuba, the main entities requesting this kind of formality are the Control and Penalty Enforcement Offices subordinated to the Municipal Finance and Prices Directorates, the General Customs Office of the Republic, the Peoples' Courts and the Tax Administration Legal Services area, while the enforcement entity is the Treasury area thereof.

Therefore, the Legal Services and Treasury areas established daily mechanisms to reconcile the requested and applied refunds, in order to minimize their processing and execution time, contributing to enhance ONAT - customers' perception of good service.

7. FINAL REMARKS

In our country, the control of the rational, efficient and effective application of budget spending takes on increasingly higher priority and relevance, since the State Budget supports and consolidates the sustained growth of the Cuban economy in the last few years, and sustains the level of activity in the social sector.

The Cuban Single Treasury Account, as a preliminary control mechanism that is part of a system integrating the Financial State Administration, is very new, and has been in place for only six years, two of which in an almost experimental phase, and four years of development in the Tax Administration. Nevertheless, the outcomes of this mechanism have strengthened the internal control and financial discipline required in the public administrations' service units.

The ONAT, also a young Organization, created 15 years ago, has undertaken an invaluable effort in developing the Single Treasury Account, proving the dedication and sense of belonging of its human resources; it has focused increasingly on the daily function of advance organization and control of payments from the budget under its responsibility, to guarantee the levels of activity in the social and economic spheres made available to the entities in charge of rendering social services and sales of goods and services in our country, marked by transparency and legality.

Integration of information flows between the Treasury and the main areas in charge of tax control reduced the gaps in auditing a relevant

taxpayer universe and enabled to rely on first-hand information of tax relevance for the audits scheduled. A systemic, integrated and harmonized approach facilitated ONAT's operation and improved efficiency.

The Tax Administrations are tremendously dynamic organizations, which are called to adapt expeditiously to the changes and trends that the socioeconomic conditions entail, and the ONAT has been no exception. Therefore, it assumed the challenge of implementing Treasury System functions transferred thereupon, with the permanent challenge of saving human, material and financial resources, in a scenario of integration with its fundamental mission, tax management, which is just beginning.

CHALLENGES, TRENDS AND EVALUATION OF MERGING PROCESSES

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Contents: 1. Introduction.- 2. Theoretical framework.- 3. Different models for positioning VAT operations.- 4. Different models for positioning vat operations

1. INTRODUCTION

This paper drafted for the CIAT Technical Conference in Paris (October 2010) will be an integrated part of the International Handbook for Tax Administrations an initiative of the Dutch Tax and Customs Administration and the CIAT organisations and published by IBFD. The authors of this book are Matthijs Alink (currently working for the OECD and the Dutch Tax Authorities and Victor van Kommer (IBFD)

The planning for the publication and presentation of this book (English and Spanish version) is October 2011 at the CIAT Technical Conference in Portugal

2. THEORETICAL FRAMEWORK

Tax integration is the constitution of one process, system or resource to be applied in different tax applications, instead of every application having its own. In this definition we also include the constitution of cross-reference links, which connect processes with different objectives, but with identical source data.

For example:

- One appeal process and procedure for all tax assessments
- One invoicing system for different taxes
- One information desk for all sorts of tax clients

In this definition we also include the constitution of cross-reference links, which connect processes with different objectives, but with identical source data. For example in the Excise Duty file of one tax payer a message is included, that a certain event might also influence the Value Added Tax and Income Tax situation of that tax payer. In the files of Value Added Tax and Income Tax the same links are included.

Many Tax Administrations have built in certain tax integration facilities in their operations. These are often the result of incidental improvements of their organization, and seldom the result of an orchestrated search for integration possibilities.

2.1. Pre-conditions for integration

The pre-conditions for tax integration are based on cultural, economical and organizational circumstances. There is a strong interrelationship between these three. A society's social behaviour and values or culture are the fundament of any organization in that society. Indissolubly connected with culture is the stage of development of a society.

Different cultures may lead to different organization models and management styles. On the other hand different stages of economic, demographic and technology development in a country lead to different taxation policies and different organizational needs for the Tax Administration. Both influences, culture and development stage, result in different Tax Organization models and thus in different needs for Tax Integration.

A second set of pre-conditions consists in the need to introduce organizational changes like Tax Integration very carefully and systematically. In many cases an attempt to improve the operations without a systematic approach appeared to be futile. An important tool for implementing tax integration ideas may be the so-called Business Process Redesign (BPR). This method stems from the notion that operational processes often slice through the functional layers of an organization this layering thus being an obstacle for optimal operations. BPR gives the opportunity to detect identical steps in different processes, which can be developed and operated once for all of these, instead of repeating the same step for every process. This is what we defined earlier as integration.

The advantages of BPR are: eliminating gaps, duplications and unnecessary bureaucracies. The redesign passes the stages of identifying critical business processes, appointing process owners

with strict responsibilities and evaluating the processes and the total business operation, including defining integration opportunities.

The main advantage of BPR is detecting and eliminating:

- Duplications
- Gaps
- Bureaucracies

BPR gives the opportunity to define identical steps in different processes, which can be developed and operated once for all of these, instead of repeating the same step for every process.

A BPR project starts from some premises:

- A process is a collection of logically related tasks in order to obtain a pre defined result (product)
- A process can be subdivided into sub-processes that are logically related, which consist of sequential activities that contribute to the mission of the (macro-) process.
- Every (sub-) process leads to a product; every product (or service) again is based on a process.
- Every process has an owner, who is held accountable for how well the process performs
- Every process has well defined boundaries, in- and output, interfaces with other processes; every process has documented procedures, cycle times and measurement/feedback controls

A typical BPR project passes through the following stages:

1. Identify critical business processes and perform a weighted rating, for example by weighing the customer impact, changeability, business impact;
2. Select and appoint process owners with process knowledge and power to act on the process;
3. Define responsibilities of the process owners in terms of set targets and measurements of the process results, description of input with supplier, output with client, boundaries, cycle times, interfaces with other processes, and so on;
4. Let the process owners describe and analyse the processes, preferably in the form of block diagrams. This will force the process owner to mentally walk through the process;
5. Evaluate the processes and of all the sub-processes and activities and assess the value they add to the business goals. Eliminate inefficiencies, duplications, bureaucracies and non value adding parts;

6. Evaluate the complete set of processes, streamline the whole and define the parts which may be integrated;
7. Analyse the possibilities to bring in or change Information and Communication Technology tools;
8. Review the organisation according to the redesigned processes.

2.2. Integration aspects

Tax integration is never a goal in itself. It may be an instrument to reach one or more of these objectives:

- Effectiveness: implementation of the political goals to an optimal extent.
- Efficiency: execute the tasks with maximum result at minimum cost
- Serviceability: getting a high level of client's satisfaction will increase the compliance of the client.

The responsibility of development and implementation of integration possibilities depends on the level of these possibilities. They may be on strategic, tactical or operational level. However, the impact of integration may very well exceed the borders of its implementation area. Therefore managerial attention to any integration effort is essential.

There are several aspects or areas to think about, when dealing with tax integration:

- Legislation and regulation: bringing together or linking to each other tax regulations and/or other regulations like social laws. The incentive to this is mostly the government policy to cover public issues by looking at them from the outside, namely from the citizen's point of view rather than from the administration's point of view.
- Processes: integration of (sub-)processes of different taxes and duties within the Tax Administration, but also process integration of processes with external organizations like the Ministry of Social Affairs.
- Management: the (integrated) way how to organize the execution of the main and primary tasks of the Tax Administration.
- Systems: developing and operating (mainly Information and communication-) systems, both of hardware and software, so that they function for multiple purposes.
- Resources: integrating facilitating business components like offices, canteens and maintenance can be easily foreseen. More

challenging is integrating support functions like training and development services, planning, control and finance activities and probably the most important the human resources management.

The objective of integration in the *legislative* area (for example creating links between different laws or combining different tax types in one regulation) has mainly been effectiveness. However, especially with increasing internationalisation of societies, and the increasing co-operation between countries, efficiency becomes more and more an important issue: simplification, easy to implement, fit for internationalisation.

Between legislation and tax organisation there is a strong connection. The conventional situation is, that legislation and tax organisations follow are set up along the tax-type lines: for every tax type an own law and organization unit. Increasingly, also in EU countries, we see a trend for integration: tax functions and regulations combined in multipurpose entities.

Even outside the typical tax area, like for example integration of collection tax revenues and social premiums.

The responsibility for Tax integration decisions depends on the area in which the integration, resulting from a business redesign effort within a Tax Administration, takes place. This picture shows the areas of tax integration, and the responsibilities involved.

Responsibility Integration areas	Strategic management/ policymakers	Top management	Operational management
Legislation & regulation	x		
Management	x	x	
Processes		x	x
Systems		x	x
Resources			x

Sometimes we see different names and definitions for processes and activities that are combined. In general we would see the following examples:

- The process of control (mainly seen as a kind of desk examination of formal documents);
- The process of supervision; this process covers mostly levying activities and performed audits;
- The process of enforcement; this is the next step if voluntary compliance failed. Enforcement activities are all kind of measures to put the debtor (who isn't paying taxes) under a kind of pressure;
- Client treatment: a combination of services and file management.
- Intelligence as a part of investigation.

Main processes within the tax administration are registration, levying, collecting, auditing and investigation. When integrating processes we must think about integration within the process, integration between more processes and integration with external processes. All three basis objectives can be reached: effectiveness (improving law enforcement), efficiency (lower cost), and serviceability (better client contacts). Most essential in nearly all integration situations is the creation of a unique Tax Identification Number (TIN) per citizen or organisation.

There is a broad range of integration possibilities; in many countries we see:

- Data and file integrations: integrate all information around the individual tax payer. Essential to this integration (and others) is the creation of a unique tax identification number for every citizen.
- External integrations: for example the intensive co-operation in The Netherlands between the Tax Organisation and the Ministry of Social Affairs (fraud policy, client approach, collection process). In Spain and Portugal the Tax processes of registration and collection are integrated with commercial banking processes. Taxpayers send their returns and pay the tax to the banks.
- Front office/back office organisation: integrating client contacts for all taxes within one box office, while specialising the back office processes.
- Target group orientation: integrating tax payers information according to their characteristics, often based on risk assessments of the group (one group carries a higher risk for fraud than other)
- Integrated case management: Integration of handling all tax cases for the same client.
- Mass processing centres: integrating the administrative digitising and processing of mass data.

Processes	Cooperation with third parties	Interest of taxpayer	Law enforcement	System advantages
Services	Information centre and services public sector	Client treatment 'One stop shopping' as integrated structure		Design of the front and back office approach
Registration	Use of identical number			
	Combined file system			
Levyng	Use the calculation of the income also as bases for other regulations (social security, subsidies, grants, etc)		Risk assessment with other law enforcement agencies	
Auditing	Joint audits or at least a good planning and coordination of visits to the taxpayer			
Collection	Payment activities with private banks or using the same collection function			
Investigation			Risk analysis with other investigation agencies	

Integration on management level encompasses the whole strategy of business doing in the Tax Administration. Some main trends can be seen in many countries, like:

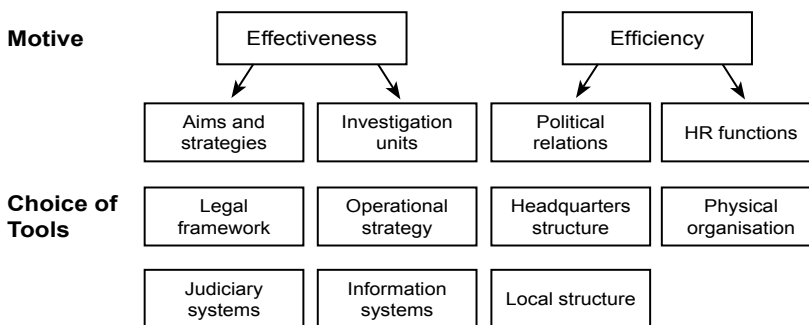
- Increasing independence of the tax administration operations from the political bodies. The tax administration is seen to operate as an autonomous body, of which even some parts may be privatised or outsourced. An example is the relationship that the Spanish and Portuguese tax organizations have created with commercial banks, to take over the returns administration and the revenue collection.
- New strategies with regard to managing the operation. This is often influenced by external factors like technology, social behaviour, globalisation of businesses, international tax co-operations. A good example is the Dutch change in operational management: integrated management teams and integrated working teams, according with personal skills and talents. The Dutch Administration has set up a new management development system for this approach,

3. Customs

In this paragraph the significance of good cooperation between Tax and Customs authorities will be discussed. In this paragraph we want to discuss:

- Why cooperation is essential;
- How VAT can be organised;
- What kind of activities can be developed and executed together

The basic motivation for the merger between the tax administration and customs is the need and the desire to increase efficiency (the resources spent on each unit of revenue collected) and/or effectiveness (that refers to the ways in which the revenue is collected) of those parts of state's administration. Depending on the main motive, different tools are used in the merger process. The example is illustrated by the following scheme¹



Two basic merger strategies depending on the motives of integration:

- Operational integration – in the case of external motives and the focus is put on the performance of the tax administration – results or effectiveness.
- Functional integration that is motivated by the desire to increase efficiency.

In our view it doesn't make much difference if the customs function is tasked to a separate agency or department or if the customs service is an integrated part of the tax administration. In the last case we always see that the customs operations are allotted to a separate division in the organisation and that only the management is shared.

¹ Source: *The World Bank Group Supporting Institutional Reforms in Tax and Customs: Integrating Tax and Customs Administrations, 2003*

The customs process is by nature different from the process of taxation. We see this difference occurring also in the administration of big companies. If we regard the administrative processes in a multinational we can detect two different kind of administrative organisation and related procedures:

- Administration related to capital and profit (corporate income tax, wages withholding tax, personal income tax for director/owner, property tax, dividend tax, etc);
- Administration related to logistics (excises, VAT, customs duties, environmental taxes, etc).

This distinction is quite evident and requires different skills to manage the different processes. This does not only apply to (large) enterprises but also to government agencies. Given the clear distinction in processes between taxes and customs we can hardly see any synergy advantages for tax administrations to merge the operations of taxation and customs. However this separation by nature and also by historical reasons doesn't mean that cooperation is not required. On the contrary and we believe that in many countries the cooperation between tax authorities and customs agencies could be improved.

Below we listed a few arguments why mutual adjustment and cooperation between the tax and customs authorities are crucial for the performance of both organisations:

- In the corporate income tax the issue of transfer pricing in the relation mother-daughter is important for the right amount of taxation. In the customs there is the issue of validation. More cooperation between customs (the taxpayer as importer has a motif for under declaring (less customs duties) and the tax administration (the same taxpayer has the motif to calculate a higher cost price for purchases of the related daughter company, meaning a shift of profit to a country with a lower tax regime) is therefore required;
- In some countries a well-elaborated system of customs licenses is established (based on the reliability of the companies administration parts of the customs process are 'outsourced' to this company to smoothen the process of logistics and formal procedures). Before such a license is given the customs authorities will examine the internal administrative organisation of the company in question. The so-called initial audit gives an insight in the strength and weaknesses of the company. This risk detection system is also very useful for tax authorities;

- Customs has by nature a better understanding of the business of their producers, importers and exporters. And they have by their physical tradition of inspection more the function of the 'ears and eyes' of the law enforcement agencies. Customs officers have an understanding of the physics of the production process (otherwise they can't audit an oil firm, a brewery or a pharmaceutical producer). If the tax authorities will recognise these knowledge then they can incorporate this branch related information in their risk assessment process (an example: in a high tech environment of the pharmaceutical industry, the requirements (and related internal procedures) for protecting the innovation process, trademarks, licenses, patents and fighting counterfeit are so sophisticated and complex that the risk of avoiding to pay the right amount of tax or duties has a far less priority. Meaning that customs and tax administrations can rely on the internal bookkeeping and process descriptions);
- Tax authorities on the other hand have a better insight in the financial and commercial risks of a company. Based on their information (trends in turnovers, costs and profits) they can better predict or the company is facing high seas or is in a rather good shape to sail to another profitable year. Because these trends will have a major impact on company decisions with always a related tax impact (mergers, reorganisations, costs reductions, takeovers, liquidations, share issue, capital injections, etc);
- The complexity and the costs of information technology can be stimuli to explore the possibilities to find synergy between the tax and customs processes. Similarities to consider are in the way of registration for enterprises, design of audit files, risk assessment profiles and of course improving the exchange of information. In the end tax and customs processes are about the same kind of activities: registration and classification of taxpayers, the assessment and filing procedures, the auditing activities and categorising of risks. The legal aspects are different but the chain of activities is similar. The collection and payment process can surely be integrated;
- To merge the investigation and intelligence processes has to be considered to achieve more effectiveness. Criminal behaviour is not limited to just one aspect of taxation. Horizontal fraud means that the suspect of criminal behaviour is not only violating one kind of regulations but his criminal performance is widespread and thoroughly cooperation and if possible integration of investigation processes is the most effective way to find against tax evasion and related criminal activities.

4. DIFFERENT MODELS FOR POSITIONING VAT OPERATIONS

When considering the introduction of a VAT system the question arises which organisation should be tasked with the execution the VAT. This discussion is especially relevant for smaller jurisdictions as countries in the Caribbean, the Pacific and also for countries with a limited tax regime such as oil producing countries in the Gulf region. In these kinds of countries customs authorities are usually playing a very significant and influential role in society. Some island economies for instance haven't seen a need to introduce complicated income tax regimes because most goods and services are being imported making the customs authorities the gatekeepers of these societies.

In countries like many Caribbean jurisdictions where the origin of most of the consumption is import the reality behind the introduction of a VAT is a disguised customs duty.

4.1. VAT operated by the Customs Administration

For some countries as described above there is the existence of a relative high interest of import for their economy so that they have to consider that the Customs can be the organisation to execute the VAT.

But there are some limitations to this model. Generally spoken the Customs administration is an organisation that has primarily focus on goods and related risks. Moreover Customs seeing the flow of goods for import transit and export from the angle what kind of goods are harmful for the economy and/or society. The first step in the customs process is to have an overview of these flows of goods and the second step is to consider or the goods are allowed to be brought in the country or to leave the country. If the Customs administration gives their approval only then the levying process starts. To assess and to collect taxes is for Customs a side product on their approval system. In the case of jurisdictions that are member of economic communities there is also another trend and that is the continuous movement to abolish customs duties in the member states of the common market. But with an eventual introduction of VAT in all or some countries of the common market the presence of a control unit at the borders (and of course this will be the customs administration) is recommended to implement the right VAT regime and tariff on the goods to their final destination. Otherwise we will see that for inhabitants of the community it will be easy to purchase their (luxury) goods in the specific country with the lowest VAT tariff on the desired goods.

There are also other trends in our global world that are not in favour to put the execution of the VAT in the hands of the Customs Administration:

- Based on the emerging need for governments to protect their society for terrorism we see a movement towards customs to merge them with other security forces and to establish a border patrol organisation. It is obvious that such an organisation has a different view on certain processes related to taxation (assessment, taxpayer service, examination and collection) and that the only processes that will have a priority are risk detection and investigation. The attitude of such an organisation will be regressive instead of the pro-active profile that is required for taxation (promoting voluntary compliance and to understand the needs of commercial entities in society);
- Other influences on customs are the demanding tasks put on them by other public agencies. Customs are the port keepers of the country and in this role they are asked to examine many other laws and regulations². Currently we can see that Customs have a priority to gardening the health situation (the thread of the epidemic spread of bird flu, mad cow disease or pig fever). Other examples include the protection by Customs of items of national heritage, or in the case of Islamic countries the illegal import of alcohol and goods that will harm the religious feelings among citizens. We can conclude that most likely the levying process will not be receiving the highest priority by the customs administrations under the described circumstances.

Although the synergy advantages at operational level of merging tax and customs administrations seem to be quite limited, there is a clear trend to merge Customs with the Tax Administration.³ The main reasons behind this are cost efficiency (jointly use of facilities and support systems, such as finance, human resource management, planning, ICT, and jointly development and use of databases for registration, data storing and risk assessment etc.)

² *The supervision on customs is becoming a part of the political reality in several countries. From origin the Ministry of Finance is in charge. But more and more we can see that there is a demand from the Ministries for Justice or the Interior to have the fully control on the customs process. Other Ministries (mainly Economic Affairs, Foreign Affairs, Health, Transport and Agriculture) want to have a stake in the decision making process of customs.*

³ *Countries that have a long tradition in a merged tax and customs administration are Denmark, Canada and the Netherlands. Recently, the United Kingdom has chosen to integrate Customs and Excise with Inland Revenue.*

In most countries with a modern VAT system, the responsibility for the administration of VAT is in the hands of two organisations: customs collect VAT on importation of goods, whereas levying the domestic VAT is the responsibility of the tax administration. These two organisations do need to cooperate closely.

4.2. Separate organisation for VAT

Another option is off course to set up an independent organisation for the execution of the VAT law and related regulations. The benefit of setting up a separate organization for VAT is a strong focus on VAT because of lesser interference with existing dominant forces within the organization tasked with the application of customs regulations and income tax and other tax legislations. By building up a separate organization for VAT a fresh start can be made to set up management, legal and technological systems without prioritising them with the existing tax regulations. However the disadvantages of a separate organization will be more evident. A third administration for taxes makes things not easier for taxpayers. Instead of the public institutions taking care of the coordination of the different taxation processes, the burden of coordinating would then be shifted to the taxpayers.⁴ And the creation of a separate administration tasked with the implementation of VAT would also generate more coordination issues and management disagreements between the public entities themselves. And last but not least there is a serious risk that all different administrations would only own a part of the total picture of the taxpayer profile, which would make it very difficult for the different organizations to manage the compliance risks of the tax payers and to deliver adequate services to their customers.

4.3. VAT as an integrated part of the Tax Administration

Most common practise and by far the most preferable solution is to task the Tax Administration responsible for the implementation of the main (direct) taxes also with the implementation of VAT fully integrating the activities related to VAT with the total management of the taxpayers.

If customs and tax are handled by the same department or agency the necessary cooperation can be easily facilitated. However also when handled by different organizations we strongly recommend that customs and tax authorities would work closely together and that

⁴ *To reduce the cost of compliance for the taxpayer many tax administrations in the world has merged all the different tax laws and processes in one single organisation.*

they find ways to run similar processes in a more effective and cost efficient way. Below we give a few examples where cooperation can be explored:

- As mentioned before is the area of risk assessment and intelligence crucial in further cooperation. Both operations can share their databases, methodology, analyses and interpretations;
- Training, research and development; in this area a joined tax and customs academy can facilitate the similar processes in both operations. Secondly training is the way to understand both worlds;
- Job rotation: for managers and even in the field of operations an experience of a few years in the sister organisation will be helpful in a better understanding and improving cooperation;
- Foreign affairs: some countries know the liaison officer for customs at their embassies. A broader assignment (tax and customs affairs) is always in the interest of both organisations;
- ICT: the investments in information technology are huge and the costs for maintenance are even higher. There are lessons to be learned (project management, definitions, integration or linking of other applications, introduction programs, etc) for both organisations. An integrated service institute for both operations will be more cost efficient;
- Integrated budget policy: if both organisations will merge their budgets than it will be easier to shift budgets (especially not used funds) to other operations and also the shift of staff can be easier (tasks reduction and costs savings in one field can be used for expanding activities in other areas);
- Internal auditing and integrity: there can be no difference in the general policy for preserving integrity for both enforcement organisations. Maybe there are slight differences in risks and target groups but the overall philosophy is the same;
- External and internal communication strategy can be served by one department;
- Review: in the case that a second opinion is required in solving complicated matters or in cases of dispute resolution an independent committee (or appeal officer, ombudsman, mediator) can be useful and this service can be organised for both organisations.

FINAL CONSIDERATIONS

GENERAL CONCLUSIONS

Luis Cremades Ugarte

Head of the Permanent Spanish Mission to the CIAT

Mr. President, first of all I would like to thank our hosts, the General Directorate of Public Finances of France and the CIAT Executive Secretariat represented by Mr. Márcio Verdi, for entrusting me the presentation of the general conclusions of this Technical Conference which we are successfully closing today.

It is an honor for me as official with over thirty years of service at the Spanish Tax Administration to address you in order to comment and reach conclusions on the topics discussed in this Conference, which I must say I have experienced very closely in my own administrative experience.



Mr. Luis Cremades Ugarte

In my initial statements, I would like to point out the appropriate selection of the main theme - "Improvement of the effectiveness of the Tax Administrations through new organizational models"- the record attendance - 197 participants, 74 Delegations, 34 CIAT member countries, 26 invited countries and 14 international organizations – as well as the excellent level of presentations by the speakers, panelists, commentators, moderators and contributions by the participants in the discussions.

I would hope that all of them will be included in this report and conclusions, while apologizing beforehand for any omission or oversight.

Continuing directly to the daily development of the sessions and previously as general comment, I would like to point out that, for some years in the public management modernization processes there have been initiatives mainly aimed at greater effectiveness, efficiency and

definitely, quality in compliance with functions and goals.

In this context and in the field of Tax Administrations, the modernization strategy has had multiple orientations, from the organizational perspective; that is, new more autonomous and dynamic organizational structures – agency type models – as well as from the functional perspective which considers merger and integration processes of procedures and internal applications, as well as with other State organizations and entities. Along this line there have been integrations of the internal tax and customs areas and to a lesser extent, with the Social Security Managing Entities or other Entities and Organizations.

In my opinion and according to this evolution, at present we could not talk about a definitive trend or course toward merger or integrated organizational models but rather a series of experiences –already realities-of these models in different countries, with varying levels and scopes that mostly coexist with other nonintegrated organizational models, but nonetheless, no less efficient in their activity.

In this situation of merged or integrated models that have been the subject of analysis under different perspectives in this Technical Conference, there are the case studies presented by the Tax Administrations of Argentina, Brazil, Cuba, France, Guatemala, Honduras, Italy, Kenya, Mexico, Netherlands, Peru and Spain and the unique case of Canada which experienced the process of merger of internal taxes and customs duties in 1992 and the inverse process in 2003.

It is important to recall that still most countries have nonintegrated organizational structures that continue with their traditional functions but which nevertheless have evolved in the past years toward “continuous improvement” in the achievement of their objectives, not only with process involving the review and integration of their applications and internal procedures, but also in the field of their external relations through greater cooperation and coordination with the different State bodies.

The issue being discussed is integration versus coordination or cooperation, which does not have a single answer given the different meanings and dimensions of these terms in the complexity of the different economic and social contexts and in particular, because of the competitive, economic-financial, territorial and cultural aspects that are at stake.

In my opinion, the solution perhaps could be found in mixed models where there may be effective integration with coordination and cooperation that will always be necessary to obtain the efficient results

we all expect from our Tax Administrations.

All these matters have been discussed in these sessions with very interesting contributions by those in charge of presenting the main topics – France, CIAT and Brazil- their commentators, moderators and the specific experiences presented through case studies from different countries.

The topic covered on the first day was “the merger of competencies in the Tax Administrations as strategy for improving the effectiveness and efficiency of the public administration”.

France, which was responsible for the main topic, described the challenge of modernization and integration undertaken in 2008 with the creation of the General Directorate of Public Finances (DGFIP), which is the result of a reform determined by the President of the Republic within the framework of the General Review of Public Policies. An integration was made of the General Directorate of Taxes and the General Directorate of Public Accounting in a total merger of head offices, structures, personnel statutes and in sum of cultures, with a three-year term established for achieving this objective.

With respect to the why, the response was to overcome three difficulties; namely, the calculation and collection of taxes, the unification of interlocutors for the Territorial Entities and cost reduction.

As to what for, likewise the response was to achieve three objectives such as better service to the user, greater tax yield and reduction of operational costs.

The response to how to do it is under the principles of progressiveness – in three years until April- of balance that is, without winners or losers; of internal dialogue that may guarantee an appropriate organizational climate.

This merger process covers multiplicity of functions – 5.000 services and 125.000 agents – and is being successfully implemented, placing the DGFIP at the center of French public financial life and performing a crucial role in its economic sphere.

The United, in its position of commentator, described the IRS's situation, which only administers federal tax revenues, although lately it has been collaborating with some Social Security task and hopes to learn from the merger processes to be analyzed in this Conference.

He also referred to the IRS's new improvement processes in relation

to the Pre-filing Agreements, Permanent Refund Programs and new Transfer Pricing Program.

In relation to the subtopic dealing with merger models, there was a presentation by SAT of Guatemala, whose creation was contemporary with a period in the history of Guatemala when democratic opening was being initiated and consolidated.

SAT became a decentralized state entity, with competency in internal taxes and Customs, jurisdiction throughout the national territory and enjoying functional, economic, financial, technical and administrative autonomy, as well as legal personality, net worth and resources of its own. The conclusion was that following twelve years of activity and overcoming critical periods in its operation, the experience –currently a reality – has become a success, showing the Institution's stability and capacity for adapting to changing situations.

Peru expressed itself along these same lines, on presenting the country's experience in the merger process begun in 2002, between Customs and SUNAT, although social contributions were already being collected since 1999.

The results are being positive, based on common support entities, centralized and coordinated strategic planning with territorial decentralization, single data base and integration of horizontal tax procedures involving collection, recovery, examination and training.

Nevertheless, there are issues to be solved, some of the most important being budgetary autonomy and improvements as regards enforced collection processes.

Currently SUNAT collects 78% of the Peruvian State's revenues.

Under this same subtopic of merger of internal taxes and customs duties, Mexico presented its model which dates back to 1931 and which was definitively adopted with the creation in 1997 of the Tax Administration Service (SAT), to which the General Customs Administration was adhered.

It also presented the "Customs Modernization Plan" with its main lines of action, namely: increased competitiveness, increased voluntary compliance, strengthening of human capital and increased security in customs facilities.

Customs plays a very important role by collecting 45% of Mexico's total VAT.

On the other hand, The Netherlands presented an innovative

experience and that is, the incorporation to the sphere of its Tax Administration since 2005 of the responsibility for collecting certain “social benefits” which are ultimately compensations or allowances which households may receive for expenses involving childcare, rent or health care and which seek a redistributive effect of income.

The fact that the Tax Administration is the one assuming said new responsibility previously carried out by other bodies, is the result of a political decision based on the trust in said organization because of its experience in the management of massive procedures and in the control of data entry that, in turn, is a determining factor in providing this assistance.

The four factors proposed to be successful in these processes were pro-activity, responsibility, sound computerized development and customer orientation.

Argentina, on its part, presented the experience of the Federal Administration of Public Revenues (AFIP) which integrated internal taxes with customs duties and social security contributions.

It is a fully operational entity that collects 98% of Argentina’s revenues.

The strategic objectives of this “Single Agency” model involved the prevention of noncompliance and reduction of evasion, contraband and unregistered employment, as well as promoting the responsibility of all those intervening in the collection process, by in turn improving the information and assistance services.

On this basis, in these past years there has been an integration of the main functions, operational rationalization and optimization of the control actions. Thus, and in relation to this latter item, the “Anti-evasion Plans” were approved.

They included tax, customs and social security aspects that allowed for a high quality risk analysis.

In sum, this highly integrated administrative structure model has turned out to be very positive and the Argentine society has begun to perceive the presence of a more homogenous, unified and stronger organization, with capacity for more efficiently detecting and combating tax and social security noncompliance.

The second day was devoted to “Key aspects for the implementation of a merger of competencies in the Tax Administrations”.

CIAT, as keynote speaker on this topic, referred to the main aspects

for implementing a merger of competencies within the mission of the Tax Administrations and, in particular, within Latin America's economic and social context. Both circumstances, together with the general political support are fundamental factors to be considered for achieving sustainable development in our organizations that may guarantee their professionalism and independence in the efficient achievement of their objectives.

A taxonomy was presented of the various alternatives of merger of competencies, as well as of the current situation of the Tax Administrations of Latin America, noting that most of the CIAT countries have some integrated function, either of a fiscal or extra-fiscal nature.

On the other hand, an analysis was made of the factors that characterize the "Single Agency" organizational structure model, the functions and processes susceptible of integration and the indirect advantages, fundamentally in risk analysis.

It was pointed out as key issue in these integration processes, that it should be a government policy with early planning, integrally considering in the Action Plan all aspects –normative, competencies, communication, human and material- and which may guarantee the transition toward these processes and their future success.

In its role as commentator, Costa Rica presented the experience of its Tax Administration which, although there is no operational integration of the internal taxes and customs

duties, there is one from the organic standpoint, since both areas are dependent on the Deputy Minister of Revenues. In its future vision, it endeavors to achieve technological integration of the information and knowledge management for improving the efficiency of the Costa Rican Tax Administration.

Kenya gave an account of the experience of the Revenue Authority of Kenya, which since 1995 became the central government's revenue agency, involving three departments of the Ministry of Finance (Income Tax, Customs Duties and Excise, and Value Added Tax) and a Department from the Ministry of Transportation (Department of Land Transportation).

After some initial years of formal integration, since the same pre-existing structures still remained, the Tax Administration Reform and Modernization Program began in the 2003-2006 period with structural, functional and technological reforms.

In 2006-2009, emphasis was placed in human resources development

in all its phases (selection, training, remuneration, ethics, etc...) as fundamental factor in these processes, it being concluded that sensible but proactive leadership, supported by modern technology is the key which brings about changes.

As an end result, the Revenue Authority (KRA) is currently recognized as one of the best institutions in Kenya.

Honduras presented its Tax Administration, which is known as the Executive Directorate of Revenues (DEI) since 1994 and which currently integrates internal and foreign trade taxes. The year 2010 has been a point of inflexion for the DEI, on being given a new legal framework of decentralized entity and national security, adhered to the Secretariat of Finance, which affords it technical, financial, budgetary and functional autonomy and allows it greater flexibility for managing its resources.

It is currently involved in a Strategic Plan for Change 4 years from then, with the support of several international organizations.

In relation to the subtopic of human resources management vis-a-vis structural changes, France presented human resources as a key element in the merger processes and particularly in the DGFIP's reform.

Preferential attention to human resources is a key factor for facilitating the mergers of structures, bringing cultures together and preparing the administration for the future. All these objectives must be achieved through harmonization processes, improvement of the working framework based on common values, integration of training and exchange of experiences.

Time control in these processes and the communication policy were finally presented as lesson learned.

Also, within the human resources issue Italy offered the experience and scope of the functions of the Guardia di Finanza, as a special police force organized according to military guidelines and under the direct authority of the Ministry of Economy and Finance, with the double role of financial and economic police.

Recruitment, different levels of training and professional profiles were also analyzed.

Changing stage, as we would say in bullfighting terms, in the afternoon

of this same day we had the presentation of the new CIAT Web site and the CIAT Electronic Invoicing and Benchmarking models.

With respect to the new Web site, I must say that it is part of the new CIAT Communication Policy and it has become for us, as Executive Secretariat staff members and for you, as member countries of CIAT, a fundamental challenge as “master-mind” and “open window” to everyone interested in tax issues. As our Executive Secretary said in the presentation “we are devoting our full efforts” to Digital Communication.

The idea has been to create a modern, friendly, integrating, interactive, useful and quality Web and that with everyone’s contribution it may become day to day a point of reference in the world of the Tax Administrations.

On the other hand, with respect to Electronic Invoicing it was noted that it is a CIAT product; that is, of its member countries and that the Executive Secretariat supported and coordinated the establishment of a working group as forum for discussing this issue. We had interesting contributions from Mexico and Brazil who, together with CIAT are developing a conversion protocol to attempt the implementation of an international electronic invoicing model. Latin America’s leadership in this area was highlighted, in particular the implementation of electronic invoicing in Brazil, Chile and Mexico.

Finally, as a result of the Benchmarking working group, a model was presented. It includes a source of online information with guides, data and tools – on benchmarking programs which the member countries may access and use for improving their tax administrations. It is a model that is easy to use, visual, accessible and which guarantees data confidentiality.

The third day was devoted to the Technical-Strategic Session, whose innovative aspect with respect to previous sessions of other Conferences was the invitation made to all the participants to take part therein.

Two round tables were organized, both with a panel of experts representing the CIAT member countries, as well as representatives from the European Commission, the International Monetary Fund and the OECD.

The topic proposed was “The Struggle Against Tax Fraud” considered from two perspectives “The exchange of information” and “Effective mechanisms for Combating Harmful Tax Planning”.

As for “Information Exchange” the past decades have witnessed an unprecedented liberalization and globalization of the national economies, with an evident unbalance between the Tax Administrations confined to their own jurisdictions and the taxpayers that operate globally.

In this environment, then, there arises “Information Exchange” at the international level as an irreplaceable and fundamental cooperation mechanism between the Tax Administrations for preventing and combating tax fraud and definitely for achieving greater transparency. As Jeffrey Owens said, transparency is the key word in the next decade.

Nevertheless, I would like to highlight the term “prevention”, given the dissuasive nature if the taxpayers are aware of the existence of effective information exchange systems which urge them to improve their voluntary compliance with their tax obligations.

Also worth noting is the OECD’s leadership in the area of tax collaboration for over 15 years, working in transparency and the exchange of information among the different tax jurisdictions at the world level and which played an active role as panelist in one of the round tables.

From a temporary standpoint, the international financial crisis, its origins and devastating consequences have entailed a point of inflexion and an unprecedented shock for the struggle against international tax evasion and achievement of large levels of transparency and information exchange. Tax transparency focused on actions intended to eradicate bank secrecy were the common denominator of the G20 summits held in Washington, London and Pittsburg and as the IMF representative said yesterday; we must take advantage of the “momentum” to move forward in this field.

In the Latin American and Caribbean sphere many countries have signed or are in the process of negotiating “agreements to avoid double taxation (DTA)” with broad clauses on information exchange or “information exchange administrative agreements (IEAA)”.

It must be recalled, nevertheless, that although the signing of agreements is a necessary step, the fundamental issue is for agreements to enter into force and be effectively applied.

To this end, the competent authorities intervening in all the information exchange processes should carefully consider such aspects as the legal norms, the organizational structure, the administrative norms and internal procedures and the human and material resources available

prior to making decisions and implementing adjustments for justifying that the negotiation of instruments as well as the execution, follow-up and evaluation of information exchange have been carried out with responsibility and efficiency.

Fundamental in this respect is the certifying role of the OECD's Global Forum and its peer reviews as well as that of international organizations, as catalysts of the relationship that should necessarily exist between the tax areas and the struggle against illegal activities.

With respect to the second round table which considered the "Effective Mechanisms for Combating Harmful Tax Planning" it should be noted that tax planning in this harmful context, implies a preparatory action aimed at achieving no taxation or less taxation than what would correspond for other items and the end result being tax avoidance.

One must be aware and it thus arose in the discussion, of the need to emphasize a preventive approach against harmful Tax Planning that may allow us in the future to achieve better tax compliance results, given the internationalization of the economy and greater development of citizen rights and guarantees.

Both tables, by way of conclusion considered specific reflections and measures such as:

Acceptance of a global and effective commitment of information exchange, with a restructuring of the OECD's Global Forum and the introduction of sound mechanisms for reviewing compliance with the agreements (peer - review).

Reinforcement and acceleration of cooperation with a greater presence and simultaneous controls, as well as instruments that may allow the exchange of information with regional and multilateral solutions and greater active participation of the emerging countries. To move forward in line with the future idea from "information exchange" to "information sharing". Show that political support is an essential element for developing mechanisms for preventing and struggling against Harmful Tax Planning. The importance of accessing the governability of businesses as preventive measure for reducing the tax risk, better tax compliance and less disputes.

And finally,

Highlight the fundamental role of Cooperation at the international level and that of the International Organizations to strengthen and assist the Tax Administrations in these processes.

The last day's sessions dealt with "emerging aspects to be considered in the merger of competencies".

The main presentation was that of Brazil, in relation to the process of creation of the "Receita Federal do Brasil". In Brazil, unifying the tax administrations at the national level had as premise the functional model in which a single entity has the responsibility for carrying out all activities dealing with taxation, examination, collection, recovery, combining internal as well as foreign trade taxes and social security contributions.

The process for creating and consolidating this entity was not simple; rather it called for a process of transition and change, with a series of preparatory measures for arriving at such unity. Among these he highlighted the previous process for unifying career remunerations among the Auditors of the National Treasury and Social Security Tax Auditors, as well as the elaboration in 2005, of the Transition Plan which concluded in 2007 with the definitive creation of the "Receita Federal do Brasil" and which continued with the National Unity Plan and its development through the Strategic Control Points.

The balance of these three years since its creation is the achievement of good results as regards the increase in collection of taxes and social security contributions, without the increase of the calculation bases or the rates, in addition to having allowed the simplification of the tax legislation, bringing together the procedures and the reduction or rationalization of accessory tax obligations, thereby reducing the compliance costs.

Nevertheless, as noted by our Brazilian colleagues; even though this integration process exceeded the most optimistic expectations, there is still much left to be done to continue consolidating the "Receita Federal do Brasil" as an institution of reference at the national as well as international levels.

The German Agency for Technical Cooperation-GTZ, as commentator of the main theme presented by Brazil, analyzed the creation of the Receita Federal do Brasil positively highlighting the entire planning process and the implicit message conveyed, of having been done among equals; that is, without winners or losers. It finally asked a question regarding the need and results of the merger.

Under the subtopic of Merger of Competencies and communication France made a presentation on the communication policy implemented in the process of creation of the DGFIP.

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On this occasion and in view of the 1999 failed attempt, an “improvement message” was conveyed. It guaranteed the pre-existing situation and offered additional services on providing the Local Entities tax counseling in relation to their taxpayer information services.

It has been a clear and well understood message, which in turn constitutes a challenge for the DGFIP of not disappointing the expectations created with the rendering of these new services at the territorial level.

Spain discussed “The merger of competencies and society: communication and relationships with former and new players”.

The Spanish Tax Agency presented its Strategic Communication Plan whose objective is to consolidate and reinforce the tax awareness of Spanish society by presenting itself as a transparent, integrated, specialized, coordinated, bi-directional and interactive organization, committed to the persons that are part thereof.

In keeping with this strategy, the Spanish Tax Agency has been for some years seeking new forms of relationship with the taxpayers to improve their compliance and reduce lawsuits through:

Establishment of corporate or associative collaboration mechanisms with different entities and Promotion of relationships based on cooperation and trust; that is, by establishing a cooperative relationship.

Some of the mechanisms highlighted were the Agreements of Understanding for the prevention of tax fraud, whereby businessmen and professionals or their representative associations commit themselves to collaborate with the Tax Administration by contributing relevant information for the prevention of fraud or to enforce a code of ethics or good tax practices.

Another step in this dynamic process has been the Large Businesses Forum which was presented this year at the Montevideo General Assembly. However, the innovations in this Technical Conference have been the achievements of the Forum, such as the Code of Good Practices.

This Code, which in itself represents Spain’s leadership in tax fraud prevention practices is aimed at improving reciprocal cooperation between the businesses and the Tax Agency, based on the principles of good faith and mutual loyalty, the application of appropriate tax policies by the businesses and transparency and juridical security in the application of the regulations.

The Code was approved at the Forum's plenary meeting in July 2010. The businesses fundamentally assumed the commitment to promote the reduction of tax risks, while the Tax Agency assumed the responsibility of increasing the juridical security of the businesses and assisting them in complying with their tax obligations. Both parties commit

themselves to reduce litigations in their relationships and the conflicts derived from the interpretation of the applicable regulations.

Canada, country which serves as reference in relation to all the topics discussed and in relation to the subtopic on information systems and the new organization, described its experience under two perspectives:

- Value creation derived from the process of integration of information technology and communications between Canada Revenue Agency (CRA) and the Canadian Border Service Agency (CBSA) and
- The opportunities that may arise by integrating tax applications in the Canada Revenue Agency (CRA).

With respect to the first integration aspect, the fact of having a centralized internal supplier of Information Technology services affords both Agencies great advantages as regards quality of service, staff specialization, security and cost of the network.

There are also new challenges as regards risk analysis and management, delimitation of responsibilities and improvement in decisionmaking. In sum, the balance is that integration in the aspect discussed is a success, since it is profitable and affords effectiveness and economy of scale for both Agencies.

The second integration aspect discussed by our Canadian colleagues dealt with the benefits, challenges, and lessons learned in the internal integration of tax applications within the Canada Revenue Agency (CRA).

Within the subtopic of information systems and the new organization, Brazil presented its unique case of federal integration between the central and subnational governments through the experience of the "National Simple" system whose results have been excellent. This is a tax system that unifies taxes under the responsibility of the three government levels - Federal, State and Municipal- and is intended for micro and small businesses.

FINAL CONSIDERATIONS

In addition to unifying collection, examination and recovery of a series of taxes, this new system introduces as innovation, a new type of integration such as shared management of registration, collection recovery and examination, although being effectively exercised by each Tax Administration and within its jurisdiction, in an autonomous and sovereign manner.

This new integration process has had to overcome a series of challenges of a juridical-constitutional nature, as well as in relation to the autonomy of subnational federal entities, the territorial and geographical scope of integration and with respect to accessibility and security issues.

Nevertheless, as explained by our Brazilian colleagues, there are still great challenges to be overcome, such as the reorganization of accessory tax obligations, the Electronic Tax Invoice and possible extension of the integration model to other federal taxes, provided there is the appropriate juridical framework.

In relation to the subtopic on challenges, trends and evaluations of merger processes, Cuba presented its experience with the integration in 2006 of the functions inherent in the Treasury System of the National Office of Tax Administration (ONAT).

The purpose of the aforementioned merger of competencies was to achieve verticality and integration of the tax and treasury processes for providing better assistance to the users and better census control of compliance with tax obligations, recovery and revenue refunds.

The integration of information flows described, reduced the control gaps and definitely proved to be efficient in ONAT's management.

Finally, and also within this subtopic of challenges, trends and evaluation of merger processes the IBFD Studies Center provided a very interesting reflection noting that the conditions for tax integration are based on cultural, economic and organizational circumstances and that the varying levels of economic, demographic and technological development in a country lead to different tax policies and different organizational needs for the Tax Administration.

In this respect, he noted that tax integration is never an objective per se, but should rather be an instrument for achieving such objectives as effectiveness, efficiency and service capacity.

He also provided a list of the wide variety of possibilities for integration existing in many of our Tax Administrations, in line with the different experiences analyzed throughout these sessions.

Finally, he categorically stated that due to the clear differentiation of the customs processes he saw no synergy advantage in the merger of taxation and customs operations but was rather in favor of improving cooperation between these two areas.

To summarize the general conclusions of the conference, one should note:

- The effort of all the Tax Administrations present for incorporating a “continuous improvement” philosophy, at the organizational, procedural, material and staff levels to achieve ever better quality results in the prevention and struggle against tax fraud and the rendering of taxpayer services.
- That even though integration processes are not an objective per se, and without there being a unique solution, the process of mergers of competencies in their different dimensions and scopes have become a successful means for achieving the objectives of effectiveness and efficiency of our Tax Administrations, but always complemented with the necessary coordination and collaboration with other levels.
- Latin America’s leadership in developing and implementing electronic invoicing and the bet on it becoming the future support for commercial transactions and an irreplaceable control element.
- That in the economically open environment in which we find ourselves it is essential to move toward a global and effective commitment of “information exchange” with bilateral, regional and multilateral solutions and greater active participation of the emerging countries.
- That political support and coordination of efforts is absolutely necessary at the national as well as international spheres to prevent and control harmful tax planning with normative actions involving information exchange, documentary data bases and simultaneous controls.

To conclude, I would like to thank and congratulate all of you for the work done and allow me as a tribute to our hosts and this magic city of Paris to recall the famous phrase by Alexandre Dumas in his no less famous novel, “The Three Musketeers” when he wrote: “All for one and one for all” as symbolic expression of CIAT’s spirit of solidarity, integration, cooperation and mutual assistance which in a unity of goals and interests should be achieved by all the Tax Administrations and Organizations represented here today. Thank you for your attention.

TECHNICAL PROGRAM

CIAT TECHNICAL CONFERENCE
Paris, France
October 18 to 21, 2010

DAILY SCHEDULE OF ACTIVITIES

MAIN THEME: "IMPROVEMENT OF THE EFFECTIVENESS OF THE TAX ADMINISTRATION THROUGH NEW ORGANIZATIONAL MODELS"

Monday, October 18

Morning

09:00 - 09:30 Inaugural ceremony (30')

09:30 - 10:10 Official photograph and coffee break

TOPIC 1

Moderator: Pablo Ferreri, Director General of Revenue, General Directorate of Taxation, Uruguay

Topic 1: The merger of competencies in the Tax Administrations as strategy for improving the effectiveness and efficiency of public administration

10:10 - 10:40 **Speaker:** Philippe Parini, Director General, General Directorate of Public Finances, France (30')

10:40 - 10:50 **Commentator:** Douglas O'Donnell, Director, Treasury Administration and Internal Cooperation, Internal Revenue Service, United States (10')

10:50 - 11:20 Discussion (30')

Case study 1.1: The merger models, their compatibility and viability with the tax function

Moderator: Carmen Elena Pineda, Director General of Internal Taxes, El Salvador

11:20 - 11:40 **Speaker:** Rudy Villeda Vanegas, Superintendent, Superintendency of Tax Administration, Guatemala (20')

Technical Program

11:40 - 12:00 **Speaker:** Nahil Hirsh, National Tax Superintendent, Peru (20')

12:00 - 12:30 Discussion (30')

12:30 - 14:00 Lunch

Afternoon

Case study 1.2: The merger of internal taxes and customs duties: lessons learned and to be learned

Moderator: Sergio Mujica, Deputy Secretary General of the World Customs Organization, WCO

14:00 - 14:20 **Speaker** Hernando Gallo, Advisor to the Director General, Directorate of Taxes and National Customs, Colombia (20')

14:20 - 14:40 **Speaker** Juan Carlos Rizo León, General Large Taxpayers Administration, Tax Administration Service, Mexico (20')

14:40 - 15:10 Discussion (30')

15:10 - 15:25 Recess

Case study 1.3: The merger of the administration of internal taxes with other public finance functions: justification and viability

Moderator: Cheryl Phillip, Deputy Commissioner of Revenues, Trinidad & Tobago

15:25 - 15:45 **Speaker:** Marian Bette, International Affairs, Tax and Customs Administration, The Netherlands (20')

15:45 - 16:05 **Speaker:** Carlos Alberto Sánchez, General Director of Social Security Resources, Federal Administration of Public Revenues, Argentina (20')

16:05 - 16:35 Discussion (30')

Tuesday, October 19

TOPIC 2

Topic 2: Key aspects for the implementation of a merger of competencies in the Tax Administrations

Moderator: Robert Joseph, General Director, General Directorate of Taxes, Haiti

09:00 - 09:30 **Speaker:** Márcio F. Verdi, Executive Secretary, CIAT (30')

09:30 - 09:40 **Commentator:** Francisco Fonseca, General Director, General Directorate of Taxation, Costa Rica (10')

09:40 - 10:10 Discussion (30')

10:10 - 10:40 Recess

Case study 2.1: Management of change: leadership toward change, rendering structures, functions and procedures compatible.

Moderator: William Layne, Permanent Secretary of Finance, Ministry of Finance and Economic Affairs, Barbados

10:40 - 11:00 **Speaker:** Lorraine Malinda, Senior Deputy Commissioner, Human Resources, Kenya Revenue Authority (20')

11:00 - 11:20 **Speaker:** Oswaldo Guillén, Executive Director of Revenue, Honduras (20')

11:20 - 11:50 Discussion (30')

Case study 2.2 Human resources management vis-a-vis structural changes: management of the administrative career path, training, requalification, determination of salary systems.

Moderator: Gerónimo Bellasai, Vice-Minister of Taxation, Paraguay

11:50 - 12:10 **Speaker:** Philippe Rambal, Deputy Director General, Steering of the Network and Resources, General Directorate of Public Finances, France (20')

Technical Program

12:10 - 12:30 **Speaker:** Giuseppe Zafarana, Head of Staff Department, Finance Guard, Italy (20')

12:30 - 13:00 Discussion (30')

13:00 - 14:30 Lunch

Afternoon

14:30 - 16:00 Presentation of CIAT products

1. Digital Communication Strategy: New CIAT Web Site (40')

Participant	Organism / Country	Activity
Marcio F. Verdi	CIAT	Introduction
Issel Perozo	CIAT Consultant	Digital Communication Strategy
Issel Perozo	CIAT Consultant	Presentation of the new CIAT Web Site
Marcio F. Verdi	CIAT	Conclusions

2. CIAT Electronic Invoice Model for use in international trade (30')

Participant	Organism / Country	Activity
Raul Zambrano	CIAT	Introduction
Vinicius de Freitas	State Secretariat of Finance – Rio Grande do Sul, Brazil	Presentation of the Electronic Invoice Model
Antonio Obregón	Tax Administration Service - Mexico	Presentation of the Digital Fiscal Invoice
Eudaldo Almeida de Jesús	State Secretariat of Finance - Bahia, Brazil	Proposal of the CIAT Electronic Invoice Model for use in international trade
Raul Zambrano	CIAT	Conclusions

3. CIAT Benchmarking Model (20')

Participant	Organism / Country	Activity
Socorro Velázquez	CIAT	Introduction and presentations of the CIAT Benchmarking Working Group advances
Subert Gilbert	Inland Revenue of Trinidad and Tobago	Comments
Socorro Velázquez	CIAT	Conclusions

Wednesday, October 20

9:00 - 13:30 **TECHNICAL-STRATEGIC SESSION: Panel of experts on “struggle against International Fraud” with two round tables, one on “Information Exchange” and the other on “Harmful Practices”, to be followed by discussion.**

The Technical-Strategic Session is mainly intended for the representatives of the CIAT member countries; nevertheless, members of other delegations may also participate.

Round Table 1: Exchange of Information

Moderator:	CIAT	Socorro Velázquez
Participants:	Ecuador	Carlos Marx Carrasco
	France,	Maité Gabet; Irène Grenet
	Italy	Stefano Gesuelli
	OECD	Jeffrey Owens
	Spain	Vicente Peirats
	United States	Douglas O'Donnell

Round Table 2: Effective mechanisms for Combating Harmful International Tax Planning

Moderator:	CIAT	Márcio F. Verdi
Participants:	Argentina	Carlos Alberto Sánchez
	Chile	Iván Beltran
	European Commission	Donato Raponi
	France	Maité Gabet
	IMF	Juan Toro
	Uruguay	Pablo Ferreri

Thursday, October 21

TOPIC 3

Morning

Topic 3: **Emerging aspects to be considered in the merger of competencies**

Moderator: Soraya Nivar, Deputy Director of Collection, General Directorate of Internal Taxes, Dominican Republic

09:00 - 09:30 **Speaker:** Marcelo de Melo Souza, Deputy Secretary of Corporate Management, Federal Revenue of Brazil (30')

09:30 - 09:40 **Commentator:** Matthias Witt, Head Public Policy Division, German Agency for Technical Cooperation, GTZ (10')

09:40 - 10:10 Discussion (30')

10:10 - 10:30 Recess

Case study 3.1: The merger of competencies and society: communications and relationships with former and new players

Moderator: Viralee Latibeaudire, Acting Director General for Tax Administration, Jamaica

10:30 - 10:50 **Speaker:** Vincent Mazauric, Deputy Director General, Public Accounting Management, Directorate of Public Finance, France (20')

10:50 - 11:10 **Speaker:** Juan Manuel López Carbajo, General Director, State Agency of Tax Administration, Spain (20')

11:10 - 11:40 Discussion (30')

Case study 3.2: The information systems and the new organization. How far should integration go.

Moderator: Roberto Ugarte, Executive Chairman, a.i, National Tax Service, Bolivia

11:40 - 12:00	Speaker: Peter Poulin, Assistant Commissioner and Chief Information Office, Canada Revenue Agency (20')
12:00 - 12:20	Speaker: Silas Santiago, Executive Secretary, Management Committee of SIMPLES, Receita Federal of Brazil (20')
12:20 - 12:50	Discussion (30')
12:50 - 14:15	Lunch

Afternoon

Case study 3.3: Challenges, trends and evaluation of merging processes.

Moderator: José Antonio de Azevedo, General Director, General, General Directorate of Taxes, Portugal

14:15 -14:35	Speaker: Reinaldo Alemán, Deputy Chief, National Tax Administration Office, Cuba (20')
14:35 -14:55	Speaker: Victor van Kommer, Knowledge Centre Director, IBFD (20')
14:55 - 15:25	Discussion (30')
15:25 - 15:40	Evaluation of the event
15:40 - 17:00	Closing Ceremony
15:40 - 16:10	Final considerations: Luis Cremades Ugarte, Head of the Spanish Mission to the CIAT (30')
16:10 - 17:00	Closing acts of the event

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**CIAT Technical Conference
Paris, France
October 18 to 21, 2010**

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