

TOOLS AT THE SERVICE OF OPTIMIZATION OF RESOURCES, PROCESSES AND DECISION-MAKING

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The strategy of building an electronic tax administration based on resources in Portugal.

1. THE STRATEGY OF BUILDING A TAX ADMINISTRATION

In past years, the Portuguese Tax and Customs Authority has developing a strategy for building an electronic tax administration through the computerization, automation and virtualization of their internal processes and interfaces related to taxpayers.

That strategy's main objective is the valorization of human resources, making them more available for tasks of higher value, as well as a substantial reduction in compliance costs, especially for noncompliance with tax obligations from taxpayers.

That strategy was implemented through the following projects:

1.1. The creation of the web site on the Internet and the expansion of its characteristics

Through the Finance website, the tax and customs authority receives all electronic tax returns filed by companies. Portuguese companies that are liable to VAT do not submit returns on paper to the Portuguese Tax and Customs Authority.

For individual taxpayers, approximately 94% of the statements are submitted over the Internet. Currently, all service are submitted electronically, so Portuguese citizens do not need to move to the physical facilities of agency to solve any problem.

1.2. Full automation of the enforced collection system

Currently, tax debt collection processes are fully electronically processed, including procedures for detecting assets for seizures, establishing the embargo procedures, the electronic auction for confiscated assets, the entire payment procedure from the conversion of confiscated assets, as well as citations, notification and interaction with borrowers. The procedures liability of directors and managers to pay tax debts of the respective companies are also automated. This automation allows the TA to process completely the debt collection processes, according to the law. Because of the increased efficiency of the enforced collection system, the TA systematically reversed the increasing trend of setting tax debts. Despite the grave crisis the country is experiencing, the volume of noncompliance fell consistently. Currently, each year the volume of arrears decreases, being 2013 the lowest ever, since the statistics are performed.

The Portuguese taxpayers currently have an awareness and a keen understanding of the effectiveness of the enforced collection of tax debts, and this perception is generating a high noncompliance deterrent effect. This resulted that public institutions increasingly expect that the TA will collect their debts, even those that are not of tax nature. The TA began collecting a substantial amount of non-tax debts, which were previously collected by the courts, particularly the toll rates of highways, consultation fees in hospitals and college tuition.

As soon as the TA began collecting those debts, the voluntary compliance to those agencies grew dramatically.

1.3. The integrated automation system of sanctions

Detection of tax offenses and procedures to the implementation and collection of fines, are carried out in a fully automated electronically. The implementation of this system allows the TA detects all violations and complete all processes on average, in less than 2 months.

1.4. Application of the process management system

The implementation of procedural management system dematerialized all the internal processes of the TA. This system is based on the digitization of all services and subsequent electronic processing of all internal processes and tasks, as well as the dematerialization of processes. On the other hand, the system services are part of a network, allowing processes to be available immediately without the need for physical movement between services. This system has changed the paradigm on how the tax administration works, since

the teams no longer have to be physically in the same space to work together. Today, thousands of employees permanently interact as a team, and are electronically in constant contact, although they may physically be hundreds of miles away.

1.5. Electronic Notification System

Through the Electronic Notifications System implemented in 2010, the TA started to communicate electronically with all taxpayers performing business activities.

All communications between the TA and all VAT taxpayers are conducted through electronic media, thus completing the full digitalization of the relations between the TA and the companies.

1.6. The e-invoice system

The electronic invoicing system, by which all companies are required to report electronically to the TA until the 25th of the month following their issuance. This system is changing the paradigm on how the Portuguese tax and customs authority works, as discussed below.

1.7. Result

The implementation of the above system, as well as other electronic systems, was conducted as part of a strategy to build an electronic tax administration, which produced substantial and continuous growth of the efficiency, effectiveness and regularity of the tax administration. This growth was accompanied by a substantial reduction of internal resources, corresponding to about 20% in 5 years.

2. E-INVOICE SYSTEM

The E- invoice System as a tool to support compliance and fight fraud and tax evasion.

2.1. Objectives of the system

The implementation of electronic invoice system in Portugal is underway since 2013.

The vision of the system consists of the implementation of a collaborative tax administration, focused on preventive, substantial, and permanent improvement of voluntary compliance with tax obligations.

The aim is to produce change of the paradigm in the functioning of the TA and its relationship with taxpayers, in particular as follow:

- The TA has structured information over the country's economic activity in real time;
- The TA opens a new operational role in its activities to promote voluntary compliance with tax obligations by interacting with taxpayers and using information and communication, resulting in the immediate processing of invoices, transport documents and taxpayer returns data. This new feature will have an important effect in increasing voluntary compliance and the efficiency of the whole system;
- Relieve the system and recognizes the important role of citizens in the tax system's efficiency to promote tax fairness and equality in the fight against the informal economy.

The three resources set out above – information in real-time, interaction with taxpayers, which is parallel to their compliance, and the important role of citizens in the system efficiency generating products for the system:

- A new collaborative phase of the TA with taxpayers and citizens;
- A comprehensive view of the fight against informal economy, including the TA, businesses and citizens;
- An important prevention effect of tax evasion and tax noncompliance;
- The availability of information for subsequent inspection functions, enforced collection and penalties for violation.

The e-invoice system establishes a new paradigm of tax administrations, based on the information, unlike the classical paradigm based on authority. The information is Exchanged and integrated. This exchange is the new role of TAs to work with taxpayers, increasing the levels of voluntary compliance, to reduce and try to eliminate the compliance costs for taxpayers and the State.

The power of information in inducing voluntary compliance is contrasted to the authority power in case of non-compliance. The information exchange is inclusive. The authority is necessary and sometimes exclusive. The information prevents and represses, and the authority induces and compels. Exchange information and promote willingness is the fundamental instrument for voluntary compliance.

Therefore, authority and information are compatible. The implementation of a new tax administration function, based on the exchange of information, prevention and education, is not antagonistic to the traditional functions of the tax administration (audit and inspection

functions, coercion and punishment). Instead, it has two functions that complement each other, are not mutually exclusive and enrich each other as well, because the effectiveness of one party contributes to the effectiveness of other.

The electronic invoice system is based essentially on the role of three groups of agents of the tax system - the companies, the state and citizens. Each has a vital and irreplaceable role in the efficiency of the tax system.

2.2. The role of Companies

In Portugal, all companies are required to:

- a. Issue invoice for all transactions even when the customers do not ask for them. The obligation to issue invoices covers all companies, even when they are exempt from VAT, regardless of the business volume.
- b. Have software for invoicing subject to prior certification by the TA (except companies that have a business volume equal to € 100,000 if they do not choose for computer invoice program). The certification of the software ensures the data and prevents omitting invoices. The systems also ensure the numerical sequence of the invoices issued.
- c. Save all the copies of the invoices issued. The companies mentioned in the previous section should keep an electronic file of all invoices issued, called Images SAF-T (PT), which reproduces all invoices issued, and presents a monthly report to the AT on all invoices.
- d. Report all the invoices issued to the TA, until the 25th of the following month. The information on invoices always is always submitted electronically in 4 possible ways, which the TA makes available to companies:
 - With the introduction of SAFT file through the Finance website. This presentation is immediate and very simple;
 - By Web service between the invoicing systems of companies and the Tax Authority which communication is in real-time;
 - The manually entry of invoices in the finance site. This option is only used by smaller companies;
 - By issuing invoices directly in the finance website's. The TAs have available an invoice system on the Finance website, which can be used free of charge by independents.

- e. Previously notify the TA of all merchandise transport documents that are issued. This is possible through the various options mentioned above and it must include all the details on the amount and description of goods transported as well as the time and place, beginning and end of the cargo.
- f. Provide regular monthly or quarterly VAT returns, reporting the operations performed, with the following description:
 - The value of sales;
 - The value of VAT paid on those transactions;
 - The value of VAT deductible of purchases

2.3. The role of the State

The State (Tax and Customs Authority), plays, among others, the following activities in relation to the information received:

- a. Processing the received data:
 - The electronic invoice system performs an immediate and automatic processing of all invoices received;
 - When companies send periodic VAT returns, the TA already has the information for the same period:
 - The value of the business;
 - the amount of VAT paid;
 - The amount of deductible VAT;
 - The amount of VAT to be submitted to the State
- b. Exchange of information and anomaly detection

Due to the aforementioned data the TA automatically detects anomaly of companies that:

- Issued invoices and did not submitted the periodic VAT return;
- Submitted the periodic VAT return, but not all taxes and transactions;
- Deducted a higher VAT as reported by suppliers;
- Issue but do not report invoices;
- Without being registered or being exempt they report the VAT and not pay;
- They did not reported to the TA the invoices issued, but which VAT customers deducted;
- Issued transport documents, but not invoices;
- Receive transported goods, but do not issue invoices

c. Interaction and exchange

The Tax Authority and Customs shares with companies and offers on its website:

- All information on detected anomalies;
- Notify electronically to companies with anomalies to:
 - justify those anomalies;
 - Voluntarily correct all detected disconformities and anomalies;
- All interactions between the TA and companies are electronically through Finance website;

Inspection, coercion and sanction actions will only start if companies do not justify or voluntarily regularize the detected anomalies.

2.4. The role of Citizens

The role of citizens is the most important of the three partners (companies, state, citizens), in the fight against informal economy, evasion and tax fraud. This struggle is not only of tax administrations or of States. The most important role and the informal economy and tax evasion belong to citizens, since they are endemic plight of societies.

Such phenomena have a high social cost, measured in financial terms, and it specifically affects every single citizen. Therefore, the fight against the informal economy by citizens is a basic attitude of justice.

The electronic invoice system essential in public awareness of its role in the ongoing dissemination of information. In this sense, the system provides that all citizens should:

- Require the invoice for all purchases made;
- Receive a tax benefit corresponding to 15% of VAT if supported by invoices stating their tax identification number (NIF) in 4 sectors:
 - · Accommodation
 - · Restaurants
 - · Hairdresser and Beauty institutes
 - · Maintenance and repair of automobiles
 - · Maintenance and repair of motorcycles
- For each invoice received with NIF, is entitled to participate in 4 draws for a car.

3. RESULTS

After almost two years since the beginning of the implementation of electronic invoicing system, it is possible to make a consolidated balance sheet of its impact. We can say that the balance is very positive. In the enunciation of key impacts, we follow the previous topic, beginning with analyzing the impact of the system together with citizens.

3.1. Citizens

Before implementing the system, the expectations for citizens to commit themselves in the fight against the informal economy and tax evasion did not match. Some of us were expecting a weak adhesion to this call. Others expected an important commitment. Nearly 21 months have passed since the entry into force of the system, and this has allow us to conclude that this commitment has exceeded the most optimistic expectations. In fact:

Out of the approximately 10 million Portuguese citizens:

- a. 8.6 million take part in the Lucky Invoice Draw, because they inserted their tax identification number on invoices for purchases made;
- b. In 2013, over 2.4 million citizens demanded their invoice with NIF from purchases to hotels and restaurants.
- c. Until July 2014, more than 1.7 million citizens demanded invoice with NIF, from purchases to hotels and restaurants.
- d. Over 2 million taxpayers deducted from their personal income tax, an annual amount of 250 euros, corresponding to the incentive to demand the invoice
- e. The operating rules of the lucky Invoice draw are as follows:
 1. All invoices issued with NIF give customers the access to the draw;
 2. The e-invoice system adds all purchases made per month for each consumer;
 3. For every 10 euros of purchases made by each consumer, the system assigns one coupon;
 4. Every Friday an Audi A4 is raffled;
 5. Every six month, an extraordinary draw is done raffling 3 Audi A6;
 6. Each coupon, allows the holder to participate in the draw for the following month, as well as to the draw corresponding to the following draw;

7. Each consumer is given an average of 27 coupons per month;
8. In general terms, about 220 million coupons are attributed per month;
9. The TA also has available an application for Smartphones, where every consumer can consult the coupons and verify if he has won the lottery.

The implementation of electronic invoicing has a strong impact on public opinion in Portugal, undergoing repeated news in several Portuguese media.

3.2 The Companies

Portuguese companies met in the best way with the obligations to report the invoices to the Portuguese tax authority. In fact:

- In 2013 more than 4.2 billion invoices were reported to the TA.
- In 2014, the number of reported invoices increased about 12%.
- The number of invoices reported with NIF by buyers, who are the ultimate consumers, increased about 48% compared to the previous year;
- The number of companies reporting invoices in 2013 was about 700,000;
- In 2014, the number of companies reporting invoices were 1 million corresponding to the universe of all Portuguese companies;
- For an approximate period of 1 year nearly 13 million transport documents, which involves more than one billion of goods transported;
- The communication channel to the AT of load documents used by businesses, is approximately 87% via Web service in real-time between the computer systems of companies and the TA.

3.3 The State

The implementation of the electronic invoicing system had a major impact on tax revenue collected by the state. In fact:

- In 2013, VAT revenues increased 3.5%, reversing a downward trend since the emergence of the sovereign debt crisis;
- The revenue growth of VAT paid by companies of the 4 sectors which grants benefits to consumers, was 8%, clearly reflecting the impact of electronic invoice system on the efficiency of tax revenues collection;
- In 2014, the VAT collection is growing at around 7%, a much higher growth than the economic growth and private consumption, about 1% and 2%, respectively.

- Personal and corporate income tax also reflects a strong growth in 2014;
- The TA estimates that the impact of the fight against the informal economy and tax evasion produces an overall growth in tax revenues in 2014 of about 700 million euros, representing approx. 5% of annual tax revenues.