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 Country: Honduras  
 Tour of Duty: 9/10/67 to 8/28/69  
 Job Title: Tax Team Leader  
 Program: Tax Administration Improvement  
 Project: Public Administration  
 PASA Employer: Internal Revenue Service  
 Prior Assignment: Bolivia - 3 year tour

This report will be brief, referring only to items not previously covered in the DIFACT reporting system. The latter, through Semi-Annual progress reports and monthly narrative reports, provides an adequate picture of technical advances and of problems involved in the tax improvement program. Three sections are included below, (1) the "Setting", (2) "Suggestions for the Future", and (3) a "Summary".

SETTING

The recipient of our technical assistance is the Directorate of Taxation, Ministry of Economy and Finance, headed by Director General J. Efraim Suazo. The Directorate is charged with administration of practically all internal revenue taxes, direct and indirect. The Directorate cannot be discussed without discussing Mr. Suazo, the man who heads it. Mr. Suazo is unique in that he is a career man; and has been in the job throughout my tour, the tour of the previous team leader, and for several years before

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PUB AIN: JUL 69 *Whelan*

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that. He apparently is the "J. Edgar Hoover" of Honduras.

Mr. Somo, known as "Don Efraim" to everyone from the porters to the President, is sincere, hard-working, and very knowledgeable about tax administration and related fiscal matters. He has the respect and good will of the Minister, and of other high-ranking officials. He runs the Directorate in an orderly manner i.e. the office appears industrious, there are few signs of loafing, and attendance is closely controlled.

When related to Honduras' stage of economic development, the Directorate is by no means lagging behind, but deficiencies nevertheless exist in the substantive areas of tax administration. The heart of the problem is the lack of people in the Directorate who understand tax administration in the broad sense and who can perform well in staff and middle management positions. This shortage is apparently not limited to the tax office, but is typical of the country as a whole.

To some extent the problem in the Directorate is offset by the dedication of the people who run it, but in reality many good reform plans break down between the idea and execution stages. Consequently, the big job of the tax team is to work directly with the employees in fully implementing changes - in that way accomplishing the reforms, and at the same time increasing the capacity of the Directorate to improve itself.

In a recent reorganization the Tax Directorate was divided into three divisions, namely: Operations; Administrative; and Technical Assistance and Programming. The latter division was created to remove from day-to-day operating and housekeeping matters the function of tax planning and research. As implied by the Division title, it is also responsible for assisting in executing new plans and programs, and for installing reform measures.

In theory this is excellent and reflects advanced thinking about how a tax agency should be organized. In practice, however, the Division is becoming a bottleneck for worthy projects and a receptacle for work the other Divisions do not know what to do with.

#### SUGGESTIONS FOR THE FUTURE

1. The Division just mentioned should be assisted in screening requests, setting up work schedules, allocating priorities, and reporting results. Properly established and controlled, the division could be the key to the acceleration of tax improvement measures, thus multiplying the benefits of the tax team.
2. The Public Information and Taxpayer Assistance programs should be strengthened. Of all of the several elements that tax administration

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is made of, these are the least understood.

3. Processing measures should be streamlined to get the money into the bank faster. Key to this is legislation permitting simultaneous filing and paying, a project the Technical Assistance and Programming Division has in process. Similarly, passage of the Estimated Tax Law proposed by OAS should be promoted. This too will accelerate tax receipts into the Treasury and put businessmen and professionals on a pay-as-you-go basis along with salaried employees. Regarding the withholding tax law, administration of it can be improved by construction of a Withholding Tax Table for distribution to employers.

4. Procedures for collecting delinquent accounts need refinement, and administration of the delinquent accounts program can be improved. A current project of the Technical Assistance and Programming Division, to develop means for "writing off" uncollectible accounts, should be followed to a conclusion. (A project is already in process to clarify the responsibilities of the Directorate and the Central Bank in collection matters).

5. Help should be given in installing a refund procedure (previously developed) and in developing adequate controls over refunds issued.

6. The delinquent returns program needs continued attention to assure continuing emphasis on securing returns from delinquents and on adding new taxpayers to the rolls. Similarly the Master File System should be perfected so that the filing of returns can be mechanically or electronically controlled, and notices routinely mailed to taxpayers who are known to be delinquent.

7. Training in the United States within the INTAX Series and other available sources should be continued, and the local in-service training program supported and encouraged in every way possible.

#### S U M M A R Y

The Tax Directorate has a capable chief and the office itself is administered well. There is a chronic problem in recruiting capable middle managers and staff people, and in retaining professional employees. The basic organization is sound, but the new Division of Technical Assistance and Programming needs direction. (The field offices are not satisfactorily organized, but the OAS has this among its current projects).

The Audit function has already been given adequate attention, at least on a relative basis, by audit advisors previously assigned. In addition to the planning and Public Relations functions, the stress should now be on Collections and Processing and the interrelationships between the two.

Many of the improvements needed, however, are involved in legislative proposals, or in projects in process. Similarly, a decision of the Finance Minister is pending concerning whether new electronic equipment will be installed and the type; and some organizational implications will no doubt be involved in his final decision.

To conclude, the technical advice we have given the Directorate has been openly accepted and fairly considered. Whatever difficulties we've had were in the implementation, in the tendency to resist change at the working levels, or in the natural tendency to backslide into old ways of doing things. The secret, I suppose, is in knowing how long to stay with each project. If you stay too long you waste time and lose the chance of developing a do-it-yourself capability. If you leave too soon, there is backsliding. In Honduras, I think, you need to stay a little longer than average. The Director General believes this also, and manifests it in his reluctance to accept short-term advisors. He says his preference is a team of three or four long-termers and a minimum of short-term help.

WILSON