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PD-PAQ-776-B1

PROJECT APPRAISAL REPORT (PAR)

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1. PROJECT NO. 526-51-790-018.1	2. PAR FOR PERIOD: 6/70 TO 12/71	3. COUNTRY Paraguay	4. PAR SERIAL NO. 72-10
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5. PROJECT TITLE

Tax Administration

8p

6. PROJECT DURATION: Began FY <u>65</u> Ends FY <u>75</u>	7. DATE LATEST PROP 10/69	8. DATE LATEST PIP None	9. DATE PRIOR PAR 5/70
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10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: \$ 391,000	b. Current FY Estimated Budget: \$ 117,000	c. Estimated Budget to completion After Current FY: \$ 291,000
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11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.
Internal Revenue Service	PASA

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X)			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
USAID	AID/W	HOST		
X			When the next PROAG is written in early FY73, consideration should be given to provisions requiring the GOP to provide additional auditors, and to open the already approved 3 Regional Real Property Offices.	July 31, 1972
X			An analysis of the adequacy of the commodity (including vehicles) and participant training inputs should be made and FY73 funding levels adjusted accordingly.	July 31, 1972
X		X	The USAID should work closely with the CIAP and GOP during the current review of the GOP tax system and be prepared to try to accommodate our tax project objectives to the recommendations that come from the review.	Sept. 30, 1972
X		X	Development of realistic quantitative and qualitative targets for the FY73-75 phase of the tax project that take into account CIAP recommendations. The Logical Framework should be adjusted accordingly.	Sept. 30, 1972
X			Periodic coordination meetings should be begun with other assistance agencies providing public administration assistance to the GOP.	July 31, 1972
X			Urge MinFin to name a suitable candidate to head a Ministry Planning Office.	Continuing
X			Urge installation of permanent functioning collection systems in Internal and Real Property Tax Offices.	Dec. 31, 1972
X			Urge Income, Internal and Real Property Tax Offices to establish master files of taxpayers.	June 30, 1973

D. REPLANNING REQUIRES	REVISED OR NEW:	<input type="checkbox"/> PROP	<input type="checkbox"/> PIP	<input type="checkbox"/> PRO AG	<input type="checkbox"/> PIO/T	<input type="checkbox"/> PIO/C	<input type="checkbox"/> PIO/P	E. DATE OF REVISION: <u>April 19, 1973</u>
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PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE <u>William B. Flaherty</u>	MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE <u>John R. Oleson</u>
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II. PERFORMANCE OF KEY INPUTS AND ACTION AGENTS

A. INPUT OR ACTION AGENT CONTRACTOR, PARTICIPATING AGENCY OR VOLUNTARY AGENCY	B. PERFORMANCE AGAINST PLAN							C. IMPORTANCE FOR ACHIEVING PROJECT PURPOSE (X)				
	UNSATISFACTORY		SATISFACTORY			OUT-STANDING		LOW	MEDIUM		HIGH	
	1	2	3	4	5	6	7	1	2	3	4	5
1. Internal Revenue Service						X						X
2.												
3.												

Comment on key factors determining rating

The IRS team has exhibited a high-level of expertise and good relations with the Ministry of Finance (MINFIN). Progress toward the accomplishment of the work plan for the period under review has been achieved. Although progress toward achievement of some targets has been slow, they still appear realistic. To achieve these targets by FY75, increased efforts by the GOP and IRS team will be required to: institutionalize audit systems and permanent, functioning collection systems in appropriate tax offices; install a planning office in MINFIN; decentralize the Real Property Tax Offices; and develop a master file of taxpayers in Income, Internal and Real Property tax offices.

4. PARTICIPANT TRAINING				X								X	
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Comment on key factors determining rating

Most training in this project has been in-country. A 3-month course in Organization and Methods, taught by IRS and USAID staff, resulted in the formation of O&M groups in the Internal and Real Property Tax Offices. Other classroom and on-the-job training has also been very effective. Men trained in the O&M course and at INTAX in Washington have utilized their new skills in appropriate jobs at MINFIN. However, some step-up in participation in INTAX courses is desirable.

5. COMMODITIES				X							X		
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Comment on key factors determining rating

The small amounts of office equipment needed for this project have been obtained on schedule and used appropriately. In 1970 the GOP provided PL 480 and National Budget funds for procurement. Until the Real Property Regional Offices are opened, equipment procured for them is being used in the Central Office. The addition of some vehicles might help tax collections.

6. COOPERATING COUNTRY	a. PERSONNEL				X								X
	b. OTHER				X								X

Comment on key factors determining rating

In general the GOP has given positive personnel and policy support to the project. The GOP staff, especially at the top levels, is good and willing and able to implement most project goals. GOP in-kind and PL 480 support has been adequate. Major problem areas are the lack of a Central Planning Office in MINFIN, slow implementation of approved GOP plans, lack of funds for additional auditors in the Income Tax Office, and funding in Real Property Regional Offices. Financial pressure on the GOP to raise revenues is expected to help bring about implementation of an improved audit system and the Regional Offices. The GOP satisfied CIAP requirements for this review/except for the suspension of a well-written new income tax law. The re-written old law should, at least, maintain former levels of income tax revenues.

7. OTHER DONORS				X						X			
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(See Next Page for Comments on Other Donors)

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II. 7. Continued: Comment on key factors determining rating of Other Donors

The OAS has been responsible for drafting new tax legislation. Their 1971 income tax law was a well-written document and their pilot project in real estate revaluation has been well run. Coordination with USAID has at times been weak.

CIAP has been asked to take the lead in making a complete review of the GOP tax structure and in the drafting of a plan for tax technical assistance for the GOP. Its recommendations will be very important in helping USAID plan the FY73-75 phase of the tax project.

III. KEY OUTPUT INDICATORS AND TARGETS

A. QUANTITATIVE INDICATORS FOR MAJOR OUTPUTS		TARGETS (Percentage/Rate/Amount)					END OF PROJECT
		CUMULATIVE PRIOR FY	CURRENT FY		FY 73	FY 74	
			TO DATE	TO END			
10% annual increase in project monitored tax revenues. 1/	PLANNED	10%		10%	10%	10%	10%
	ACTUAL PERFORMANCE	5.6% (70-71)					
	REPLANNED						
	PLANNED						
	ACTUAL PERFORMANCE						
	REPLANNED						
	PLANNED						
	ACTUAL PERFORMANCE						
	REPLANNED						
	PLANNED						
	ACTUAL PERFORMANCE						
	REPLANNED						

B. QUALITATIVE INDICATORS FOR MAJOR OUTPUTS

1. Improved Tax Administration
COMMENT: New, improved methods for administering tax collections are being used in the Real Property and Internal Tax offices. New audit methods are being used in the Income Tax Office.

2. Institutionalized Training
COMMENT: Various types of training courses in clerical, technical, and administrative techniques of tax administration have been conducted. The GOP's ability to conduct courses is being institutionalized at the In-Service Training Center of the National University.

3. COMMENT:

1/ See attached "Achievements in Tax Administration 5/70-12/71"

2/ As a result of this evaluation, this quantitative goal needs re-analysis and additional ones need to be developed. See Recommendations, p.1.

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IV. PROJECT PURPOSE

A. 1. Statement of purpose as currently envisaged.

2. Same as in PROP? YES NO

To develop and institutionalize improved GOP tax administration systems and procedures.

B. 1. Conditions which will exist when above purpose is achieved.	2. Evidence to date of progress toward these conditions.
1. Existence and use of all necessary manuals for each tax office reflecting procedures, forms, etc.	New tax processing system developed and in effect in the Real Property and Internal Tax Offices. New processing system in use in Income Tax Office and new audit manual developed.
2. Institutionalized in-service training programs for MINFIN technical and administrative personnel.	Various types of in-service training courses have been developed and conducted for MINFIN employees in organization and methods, audit techniques and processing procedures in conjunction with the National University's In-Service Training Center.
3. Institutionalized centralized planning function for monitoring written procedures and for periodic review of internal and external forms.	New Organization and Methods groups were created and are functioning in the Real Property and Internal Tax Offices.
4. Personnel and financial budgets installed and operating at realistic levels to support system.	GOP has provided adequate staff and counterpart to achieve most project purposes. Additional auditors and funds for the 3 Regional Real Property Offices have been promised.
5. System of compliance with GOP tax laws, with average annual increase of 10% per year in project assisted tax collections over life of project.	New statistical systems to aid collections are operating and in the Income Tax Office there are the beginnings of a structure for tax audit. Publicity is given to new and changed procedures, laws and regulations.

V. PROGRAMMING GOAL

A. Statement of Programming Goal

Increased public sector savings through increased tax collections.

B. Will the achievement of the project purpose make a significant contribution to the programming goal, given the magnitude of the national problem? Cite evidence.

The GOP suffers from a chronic deficit in revenues that limits its resources for economic development. One aspect of this deficit is a weak administrative system for collection of tax revenues authorized by law. CIAP and the OAS both cite this weak tax administration as a major factor in Paraguay's budget deficit.

Evidence of the impact of improved tax administration on revenue can be seen in the difference between project assisted and non-assisted tax offices. In the project assisted tax offices, where there are improved administrative procedures, tax revenues have increased. In the non-assisted Customs Tax area, collections actually declined 15% during 1970-1971. The Guarani figures are an increase of \$540,000,000 in the assisted taxes and a decrease of \$264,000,000 in Customs. Improved tax administration thus seems to make a significant impact on the GOP's budgetary resources.

ACHIEVEMENTS IN TAX ADMINISTRATION - 5/70-12/71

(Blank spaces indicate not applicable)

<u>Target</u>	<u>Real Property</u>	<u>Income Tax</u>	<u>Internal Tax</u>
1) Audit Program		(2) Reviewed in 1970. Changed method for selecting returns. High % increase in audit production 1971. More than 3 for 1. Still too few auditors, but anticipate an increase of 8 more and a further increase in additional tax from the audit activity. A new form for controlling audit cases from assignment to auditor to final disposition was also adopted as was a coordinated Audit Work Plan & Returns Selection Program.	(1) Selected new Inspector General. We presented comprehensive plan for in-depth review, analysis and re-organization. Director accepted proposed plan.
2) Equitable System of Taxpayer Appeals		(2) An informal appeals system was instituted in office audit. No change in field audit.	
3) Updating of Taxpayer & Property Records	✓ Many obsolete records have been removed and destroyed. Conversion from a manual to data processing system is progressing in an orderly manner.		
4) Overall Plan for Reducing Delinquent Property Tax Balances	✓ The field collection program was re-instituted for the purpose of making personal visits to taxpayers to secure delinquent tax payments. 3 Field Offices approved in 1971 but not yet opened.		

In this summary:

- "(1)" Indicates an activity substantially or fully completed.
- "(2)" Indicates achievements are in progress and various stages of completion.
- "(3)" Indicates a continuing activity, monitored and assisted by the IRS team.

<u>Target</u>	<u>Real Property</u>	<u>Income Tax</u>	<u>Internal Tax</u>
5) Improved Administrative Methods	Absorbed in other targets.	Absorbed in other targets.	Absorbed in other targets.
6) Follow-up System for Delinquent Taxes			(2) Plan accepted for follow-up by aging accounts. Oldest accounts will generally receive attention first.
7) Improved Procedures for Tax Collections	(1) Prepared yearly tax bills for Asunción taxpayers by utilizing IIM equipment. Eventually bills for all taxpayers will be prepared in similar manner. More stringent accounting controls implemented thus less irregularities with Government funds. Late filers assessed penalties and not forgiven as was previous custom.	(1) Tax Teams recommendation for new statistics program was adopted. Two additional employees appointed to this function. Will assist greatly in audit and collections programs through use of selective statistical data and up-dating of taxpayer files and accounts.	
8) Improved Procedures to Process Tax Documents and Data		(1) IIM Master Card File completely reviewed and corrected. New cross check procedures for obtaining returns selection data were initiated. Also new audit time reporting forms and procedures for processing and analyzing direct and indirect work time were adopted.	(2) Implemented first phase of taxpayer master file which provides more effective controls with less manpower.

<u>Target</u>	<u>Real Property</u>	<u>Income Tax</u>	<u>Internal Tax</u>
) Improved Organizational Structure	✓(1) Created new department and consolidated office and field collection operations into this department. Formerly these two sections were in different departments. Formed Organization and Methods function.	✓(2) Tax Team Recommendation to create new post for Audit Division Chief, to coordinate Field and Office Audit functions now under active consideration.	(1) Formed Organization and Methods Group. Organized office Collection Section for processing delinquent accounts. Strengthened management control over field offices.
) Program of Taxpayer Education Assistance	(3) Management personnel very conscious of importance of effective taxpayer education program. New and changed procedures, laws and regulations receive prompt and complete news media coverage.		(1) Special group formed to develop material for the press, radio and TV.
) Training of Personnel	(3) Various types of in-service training courses have been conducted for employees covering such subjects as organization and methods, audit techniques and processing procedures. The Director and Technical Advisor attended third country training courses.	(1) A new audit manual was developed to be used as a basis for an audit training course in 1972. Special coaching in the use of proper statistics and returns selection criteria for auditors was provided by tax team.	(3) Various types of in-service training courses have been conducted for employees covering such subjects as organization and methods, audit techniques and processing procedures. Selected supervisory personnel have attended third country training courses in tax administration.
) Manuals that Show all Necessary Forms, Procedures, Functions, etc.	(1) Implemented data processing procedures for preparing tax bills for Asunción taxpayers and for accounting for tax payments received. ✓ (3) Develop yearly Work Plan by departments within the office which is monitored by the Director quarterly as to progress towards stated goals.		(1) Consolidated into one Resolution various tax regulations followed in the office. Developed functional statements for each segment of the office.

Other

Improved Administration Provisions in Tax Legislation

Most of the tax teams recommendations for improved administration procedures were incorporated into the recently suspended income tax law.

Improved Organizational Structure in Finance Ministry and Tax Offices

Tax Team suggestions for creation of an office of Director General of Revenues was not adopted, nor is it likely to be adopted under present ministerial administration. An alternative suggestion for a planning and/or a coordinating function at the ministerial level has, likewise, not been adopted. The latter is, however, under active consideration.

Tax team participated in a planning group which recommended to the Minister of Finance a complete restructuring of the Office of the Technical Adviser to the Minister. The proposal is under consideration by the Minister of Finance.

New O & M groups were created in two of the three tax offices.