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July 1970

Agency for International Development

UNITED STATES AID MISSION TO PARAGUAY

AMERICAN EMBASSY
ASUNCION - PARAGUAY
Cable Address: USAID-ASUNCION

August 13, 1970

4p.

MEMORANDUM

To: Mr. Jack Newman, Acting Director
Foreign Tax Assistance Staff
Internal Revenue Service, Room 1409
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

From: William B. Flaherty, Senior Tax Advisor, Asunción, Paraguay

Subject: Report for Month of July 1970

General Comments

Tax Collections through June were as follows:

(In 000 Guaranies - 126 Guaranies = \$1.00)

	1969	1970
Real Property Taxes	200,771	267,422
Income Taxes	365,699	418,688
Sales Taxes	117,447	200,531
Internal Taxes	1,305,914	1,380,229
Cigarette Stamp Taxes *	(196,650)	(132,505)
Customs Taxes **	882,594	778,129

* Included in Internal Taxes Total.

** Not monitored by IRS Tax Team.

As can be seen, all taxes monitored by the tax team continue to show an increase over 1969. The drop in cigarette taxes continues to be a drag on increases in Internal Taxes. Although we have not concerned ourselves with customs taxes, since that tax is outside our area of responsibility and authority, it's obvious there is something wrong there. The Financial Management expert contracted by AID, who reports through the Public Administration activity, is proposing a computer controlled check on certain

Customs activities. As time permits, Ray Bateman plans to coordinate with him since this is an important revenue sector and there is no customs adviser here. I anticipate this work will take only a minimum of Ray's time.

Ray and his wife, Irene, arrived August 26 and are adjusting quite rapidly to life in Paraguay. Since most of Ray's work will probably be in the Internal and Real Property tax offices, and both offices are located in the same building, we've secured office space for him there. He'll locate in the AID building during the afternoons for planning, report preparation, etc. We'll send both phone numbers along with his home phone as soon as they're located.

Real Property Tax (Inmobiliario)

Collections in the office continue running well ahead of last year - about 33% at this time. We expect the increase to hold up for the entire year, though perhaps at a lesser percentage.

I reviewed the work plan with the Director. Projects are generally on schedule. The plan for decentralized regional offices now contemplates the initial location of two employees in each of three offices. This will be the first test of the decentralization concept. While the Real Property Tax Director is a little skeptical about this project, we're enthusiastic and continue to believe that with the establishment of efficient procedures and adequate controls this project should go very well. We feel now that the problem of financing this and securing competent personnel is resolved. While we would not have opted for two people in each of the regional offices, the most important thing now is to get the project underway. Perhaps if all goes well and we determine a need for only one person in each office we can use the second man to staff similar offices.

We mentioned before that an OAS Rural Cadastral expert is now here on a one year contract with the Real Property Tax office to help develop a plan for constructing a property file for rural property. While this work is purely "tax administration", we couldn't do it. We're coordinating with the OAS man and believe the final result from this undertaking can only be a plus, not only for our IRS tax administration project, but, more importantly, for tax administration in Paraguay. If successful, it will add many new rural properties to the property tax rolls.

Income and Sales Taxes (La Renta/Venta)

I sent a letter containing our proposals for an increased personnel budget in the audit function to the Director of this office. After, I discussed the proposal - essentially a recommendation that the audit force be doubled with a corresponding increase in support personnel - with the Director. He told me he was completely in agreement with my recommendations, but doubted that the Minister would approve. Also, since he had been advised by the Ministry to

cut expenses to the bone, he was not disposed to request an increase in personnel of some 10 or 12 new employees. I then asked him if he would mind if I sent a copy of the recommendations directly to the Minister along with a request for a meeting to discuss them. He had no objections but predicted the Minister would neither grant the increases nor would he be disposed to discuss the matter.

At any rate, last week, I sent a copy of the recommendation to the Minister with a request for an audience at which the Income Tax Director should also attend. As of today I've received no answer. I plan to call the Minister's Secretary shortly and verbally request a meeting. While I'm confident the Minister will see me, I can't predict the outcome. I can only say, that in my view, the increase is direly needed and I hope that we can work out something. Because of the drop in the number of auditors and a change in the procedures for selecting returns for examination, audit production has fallen off considerably. While we can do something about return selection procedures, our hands are now tied on increasing the number of audits because of the inadequate staffing.

The proposed income tax law continues dormant in the Congress. A supplementary "procedures" law to cover administrative procedures, presumably, for all taxes administered by the Ministry of Finance, has not yet left the Executive. I reviewed the proposed "procedures" law around the first of the year with the OAS representative and he anticipated no trouble with its passage. It could have some control over the effective date for the income tax law. In spite of the OAS man's optimism it could also be used politically, as a fairly effective block in delaying implementation of the new tax law.

Internal Tax Office (Impuestos Internos)

Ray Bateman will give very high priority to the proposed master file here. He is presently working with two men specifically appointed by the Director for that project. We anticipate that these two will be attending our proposed O & M course shortly, and that will slow us down somewhat. However, we consider the need for the O & M course to be extremely important, so this delay can't reasonably be avoided.

Bond sales for the cattle tax program fell off about 15% in July compared to the same month a year ago. This, however, didn't surprise us too much, since July 1969 was the intensive first month of the project, and more than doubled July 1968. Bond sales for July 1970, for example, were still over 70% more than those for July 1968. This was the project for which the Minister of Finance publicly congratulated the administrators at a special public meeting last month.

Miscellaneous

A special audit program is now underway for sales and stamped paper taxes. In Paraguay, the latter produces more revenue annually than the income tax. The special program contemplates the audit of 100 taxpayers over a six month period. It will be under the direction of the Inspector General of Hacienda. It's unfortunate the sales tax returns can't be audited in the Income/Sales tax office but the shortage of auditors previously mentioned precludes it now. I have every expectation, however that the program will be very successful, if not a step in the direction of institutionalization. The tax team will be coordinating with the Inspector General, Guzmán Acosta, on this project.

We now have all 25 copies of Module I of SATPRO II, and hope to start the O & M course about the first week in September. It looks as if the course will run about $3\frac{1}{2}$ months, and that we'll have sufficient qualified instructors in Asunción. We're reviewing the course plan tomorrow afternoon.

The project for reregistration of cattle brands is running very smoothly. We've had two meetings during the last week-one, Saturday morning, the other, Tuesday evening. Ray Bateman attended both, and I feel we've made substantial progress toward implementation. The meetings dealt primarily with updating the old (1932) registration law, the reregistration fee, timing for future reregistration, etc. As I've mentioned previously, this should be an excellent project, not only because its successful fruition will update some archaic cattle brand files, but also, because it should produce 80 to 100,000,000 guaraníes in registration fees. As you know, Ernie did a lot of preliminary work on this for us.