

Internal Revenue Service

IRS/FTAS Tax Team <sup>2/27/71</sup> in Paraguay

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Agency for International Development

UNITED STATES AID MISSION TO PARAGUAY

AMERICAN EMBASSY  
ASUNCION - PARAGUAY

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MEMORANDUM

To: Mr. Joseph R. Harmon, 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



Subject: Report for January/February 1971

This report will bring tax administration activities in Paraguay up to date through January and February 1971.

Bill Meaders arrived in Paraguay on a hot afternoon January 27, 1971, and is now working full time in the Income Tax Office.

As I've reported previously, we detected some errors in statistics covering tax collections for the last quarter in 1970 - particularly in Internal Taxes (Impuestos Internos) and Income Taxes (Impuesto a la Renta). We now have those pretty well ironed out and will submit the comparative 1969-1970 figures in a separate report, probably within the next week.

The resident auditors of the AID Regional Office in Rio de Janeiro have begun an audit of several Public Administration projects, including Tax Administration. As soon as the latter is completed, we'll forward the results. We anticipate the audit will be completed sometime in March.

USAID has also scheduled an evaluation of all of the Public Administration, and other, projects. The evaluation of the Tax Administration project, one of four in the Public Administration area, is scheduled to be completed in the last quarter of calendar year 1971.

Although we were advised from a very high source in the Ministry of Finance that the President was calling a special session of Congress to pass the proposed Income Tax law, this had not yet been done, by the time I returned from the states. However, a notice appeared in the Party newspaper this week that the President had signed a decree calling a special session. The regular session opens April 1; so if a special session operates, it will have to be fast. We'll keep you posted.

A.I.D.  
Reference Center  
Room 1656 NS

Internal Taxes (Impuestos Internos)

We have had considerable activity in this office for the past two months. An organization chart designed by the new O & M group has been approved by the Director and will be implemented. The director also issued a publication, in booklet form, which combines all of the effective rulings of the Internal Tax Office into one pamphlet. This will greatly simplify both searches for old rulings, and the drafting of new ones. Certain differences in statistical data, pertaining to the same source material received from the Minister of Finance and the Internal Tax Office have been reconciled. This will represent a significant step in standardizing statistical reporting, and hopefully, help to prevent a recurrence of the inconsistencies that forced us to reexamine the collection figures for the last quarter. Also, errors noted in the Office's Monthly Statistical Bulletin will be corrected. To ascertain that new statistical procedures are being followed, the local administrative assistant in the Public Administration Division will personally visit the Ministry, monthly, for an indeterminate period, to secure statistical data germane to the tax project.

We have previously reported that at the suggestion of the tax team, the Director of Internal Taxes had requested the Director of the National Railway System, to underwrite the cost of the delinquency search on auto licenses and the construction of the controlling master file. The request was favorably received, and we were very surprised to learn that the first payment check was received from the railroad by Internal Taxes on February 23. This is the only instance we know of where one Paraguayan agency voluntarily made a payment to another. Ray Bateman deserves very high marks for his work on this project.

The O & M group is conducting a training needs survey in this office. A special training course is now being planned for employees of the Miscellaneous Taxes (Rentas Varias) Department. This group also participated in the design of forms to aid field offices in collecting data with respect to taxpayers outside the capital area, who have not paid auto license tax. A manual system with a preprinted card has been developed as the basic record for this part of the Master File.

During a routine review of forms it was discovered that certain forms, normally sold to taxpayers, were not controlled. The O & M group forwarded a memorandum to the director recommending that these forms be transferred to another section where they could be controlled. The director did so, stated that he considered this to be an important finding, and recognized it as one of the benefits gained from his having an O & M group. Incidentally, the promotion for the chief of that group, recommended by Ray was made effective the first of February. Subsequently, we'll plan a study of the benefits, if any, from selling forms.

Real Property Taxes (Inmobiliario)

The Director has agreed to establish an O & M function in the Real Property Tax Office.

Shortly, we plan to resume discussion with the Director on the project for locating Real Property Tax representatives in key regional offices throughout the country.

Income/Sales Taxes (La Renta)

Bill Meaders has presented his preliminary work plan for the Income Tax Office. He is proposing to develop, generally, a new classification plan for tax returns, using, partly, print-outs of IBM cards now on hand; an audit program for the balance of this year, new statistics reporting procedures and some new forms. His work is going very well so far, and he's receiving surprisingly good cooperation. As you know, our principal reason for bringing Bill down was to pump new life into the sagging audit program there, and to ready the office for the new tax law. He was also to upgrade the quality of statistics reporting.

We've analyzed tax collections here for the last quarter of 1970, and turned up some fairly significant errors. No apparent fraud, just sloppy work. The corrections will be reflected in the separate report on collection statistics we mentioned earlier in this report.

Miscellaneous

We are now conducting a survey for equipment needs in the three tax offices with which we deal (Income/Sales Tax; Internal Taxes, Real Property), and the Inspector General of Finance. Although we've given limited commodity support to these offices in the past, both from USAID and GOP owned P.L. 480 funds, there is an urgent and pressing need for files and more efficient equipment in all of these offices. Hopefully, we'll be able to remedy, partially, some of the defects by the end of the fiscal year.

We've programmed one TDY for FY 1972. At this time, it appears that we'll need someone to follow up and evaluate the efficiency and effectiveness of Bill Meaders' expected recommendation. We expect him to propose major changes in the Income Tax Office. This technician should also be prepared to train inspectors (agents/auditors) in the office of the Inspector General of Finance in both external and in-house audits. Thus, we'll probably need an audit man with a fairly strong training background, who speaks Spanish. If we finally determine that we do need such a man and can work it out at this end, it will probably be for late in this calendar year. This is just to alert you to the possibility.