

IRS/TAAS Tax Team in Paraguay

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Director  
FOREIGN TAX ASSISTANCE STAFF

June 20, 1972

MEMORANDUM

To: Mr. Joseph R. Harmon, Director  
Tax Administration Advisory Staff  
Internal Revenue Service, Room 1409  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

From: William B. Flaherty, Senior Tax Advisor

Subject: Monthly Report for May 1972

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Room 1656 NS

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General

As you know the VI CIAT Assembly was successfully concluded in Paraguay this month. The tax team coordinated fairly closely with the organizing committee and was principally occupied with this the first part of the month.

At that Assembly, the CIAT Executive Secretary requested that Ray Bateman review the proposed agenda for the Collection Seminar to be offered in Panamá in August. Most of the subjects previously recommended by Ray were included in the agenda.

He is now coordinating with the chief of the new Collection Section (Apremios y Cobranzas) in the Internal tax office on the paper the latter will present at the Panamá Seminar.

Income Tax Office (La Renta)

The tax team met several times with the chief of the Special Audit Program in this office. Although the program is going very well - we will have some meaningful statistics in our June report - a problem has developed, that could have serious implications for the project. By law, the auditors are entitled to 30% of any fines levied on deficiencies, as additional compensation. (This participation in fines was to have been omitted in the now suspended income tax law, but 1972 amendments to the old law haven't changed it.) To date they have received no payment, although collection of fines on newly proposed deficiencies have been made. If some payments are not made soon, the auditors will lose interest in the program. The

Director of the Income Tax Office, apparently has the legal authority to authorize the payments, but has ~~been~~ ~~prevented~~ ~~completely~~ from the program, and advises Dr. Vasquez, Director of the Audit Program that the Minister, himself, will have to authorize payments. We've mentioned the Director's apathy to audit programs before. The Minister has verbally agreed to the payments, but, to date, has signed no authorization. We suggested that an authorizing letter be submitted to the Minister for his signature, but as of this moment, we have nothing new on the situation.

As we reported before, with the very limited audit program, before this one, collections for 1972 in the Income Tax Office had fallen below 1971, although collections in the Internal and Real Property offices had increased. With this new audit program we'd hoped that: (1) we'd be able to convince the Minister of the need for a permanently assigned audit force to the Income Tax Office, and (2) that the program would have a salutary effect on total collections for this office (income and sales) and push them ahead of 1971. For example, through May, total income tax office collections have now drawn even with 1971. We're hopeful the payment problem will be resolved. It's similar to the problem we have in the Real Property tax office.

#### Internal Tax Office (Impuestos Internos)

Progress continues in establishing needed procedures for dealing with the new Business License (Patentes Fiscales) law. Daily production records have been established and are being maintained on employees who are processing Patentes documents. Arrangements have been made with the Ministry of Finance to perform the key punching on Patente documents. Follow-up procedures have been established for field offices not submitting proper documentation. Director Martinez withheld monthly salary payments from field offices not submitting the required Patente documentation. This appears to have solved the problem.

Planning is started on the new Collection (Apremios y Cobranzas) Section in this office. As I mentioned, the new chief, Sr. Vicente Capello is preparing the Paraguayan paper for the Panamá CIAT Seminar. Ray is assisting him. A stepped up procedure for sending out delinquency notices has been initiated. We should be developing some meaningful statistics on the new Collection function shortly.

Ray continues to coordinate with this office on the establishment of master files for the various taxes for which Impuestos Internos is responsible. As I noted in a recent letter to you, it appears quite likely that we'll be requesting TDY help for this project later in this calendar year. My own view is that the CIAP report will suggest that this project be stepped up considerably. Since we're spread pretty thinly here now, it's

unlikely that we can concentrate such more of our present resources on this important project.

We're continuing with the skills inventory recently started in the office. Hopefully, we'll have logged skills for all of the offices with which we coordinate this calendar year.

Real Property Tax Office (Impuesto Inmobiliario)

We met again with the Director of this office to discuss (1) opening the Regional Offices (2) delayed payments to collectors and (3) a personnel and equipment survey. The Director told us again that he would talk to the Minister on (1) and (2). He approved (3). There is nothing much more we can do on the Regional Offices, except keep "bugging" the Director. Some high officials in that office suggested to us, that since collections are running well ahead of last year, and even the increased budget figures are being met, (through May collections were up over 25%), the Director is not interested now in increasing collections even more, thus giving himself an inordinately high base for 1973. Politically it makes sense. We'll try to convince him now that the real benefits from establishing the Regional offices in the latter half of 1972, won't begin to appear until in 1973. We're certain, he's interested, and equally certain that those offices will represent a permanent plus for property tax collections in Paraguay.

Other

The tax team attended a meeting in May with Dr. Gentil Rojas (CIAP) to discuss possible future technical needs in tax administration. As I've reported to you by letter, I've also attended a series of meetings with Rojas and other International Advisors, to assist in the joint preparation of a paper relating to recommendations for a comprehensive study of the Paraguayan fiscal structure. In the June report, and, by special letter, as the occasion requires, I'll keep you informed on that exercise.

The tax team, in May, presented new AID-purchased grant equipment to Impuestos Internos (4 electric adding machines) and to Impuesto a la Renta (3 electric adding machines and 1 electric calculator). The latter equipment is being used initially, and, principally, in the Special Audit Program.

We expect to begin distribution of the correspondence courses in accounting within the next two weeks.

I will be on annual leave in Buenos Aires July 2 through July 8.