



USAID
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Quarterly Report

November 2006 – January 2007

TAX POLICY & ADMINISTRATION REFORM (TPAR) PROJECT
EI SALVADOR

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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1. Executive Summary

USAID signed a Task Order with Development Alternatives Inc. (DAI) on July 23, 2005 to design and implement a program for modernizing and improving tax policy and administration in El Salvador.

Highlights for the quarter are listed below:

Activities Performed

1. Development of the new Current Account System
2. Developed of the Taxpayer Registration Application
3. Development of the Call Center system
4. Development of the CAT Information System¹
5. Development of the Data Warehouse
6. Development of a new system for returns processing (Digitalization)
7. Data procurement
8. Creation of the Supervision and Control Office
9. Facilitated assignment of 2 prosecutors from the Attorney General to DGII
10. Facilitated Customs data procurement and cooperation
11. Facilitated cooperation between the DGII and the DGT (Treasury)
12. Administrative and Functional Modernization Plan
13. Development of the Plan for the Implementation of the Call Center
14. Benchmarking update
15. Tax Treaty Initiative
16. Business Process Analysis
17. Training on Change Management and Strategic Planning
18. Basic Management Training
19. Fiscal forecasting training
20. Training in Java Developer
21. Training on Taxpayer Service Techniques
22. Training on Financial Investigations Techniques

¹ CAT = Centro Asistencia Tributaria

Quarterly Results

1. **Development of the new Current Account System:** TPAR continued to develop the new current account, and modify the vision document.
2. **Development of the Taxpayer Registration Application:** TPAR continued to develop the new Taxpayer Registration Application, and modify the vision document.
3. **Development of the Call Center system:** The development of the Call Center system was finished, and is now ready to begin operations.
4. **Development of the CAT (Centro Asistencia Tributaria) Information System:** Special software to support the Call Center operations was developed. This system includes legal and technical information accessible by fast and easy queries.
5. **Development of the Data Warehouse (DWH):** The project continues working in the conceptual elements of the DWH, although, we are still waiting for the DGII to provide the data to upload.
6. **Development of a new system for returns processing (Digitalization):** In January, the project finished the digitalization system, and began updating forms F211 (updating of taxpayer information) and F11 (income tax return).
7. **Data procurement:** The project has taken the initiative in helping the DGII procure the necessary data to develop a cross reference analysis system. The system will be developed by TPAR, but the data must be procured by DGII.
8. **Creation of the Supervision and Control Office:** Office development is ongoing for this unit which was created in response to the TPAR project's recommendations.
9. **Facilitated assignment of 2 prosecutors from the Attorney General to DGII:** By the month of January, the Attorney General instructed the assignment of 1 prosecutor to DGII. One more is expected soon.
10. **Facilitated Customs data procurement and cooperation:** TPAR contacted the COP of the USAID project in the Customs Administration (DGA) and started joint coordination of a common effort to share information and develop an information system that can help both entities.
11. **Facilitated cooperation between the DGII and the DGT (Treasury):** As an initiative of TPAR, the DGII and DGT signed an agreement of cooperation that will help DGII to collect and process the returns in a timely way, and get accurate data from DGT.

- 12. Administrative and Functional Modernization Plan:** This quarter, the project continued to insist on the importance of implementing the recommendations regarding the administrative and functional modernization plan.
- 13. Development of the Plan for the Implementation of the Call Center:** A TPAR consultant developed a plan and recommendations for the implementation of the call center.
- 14. Benchmarking update:** The benchmarking data for the year 2005 was updated and the year 2006 started been developed.
- 15. Tax Treaty initiative:** In coordination with the OTA of the US Department of the Treasury, the COP assembled a meeting with the Vice Minister of Finance to discuss the signing of a Tax Treaty for the Exchange of Information with the Government of El Salvador (GOES). The Ministry expressed the deep interest the government has in this treaty; and agreed that the actions would take place in coordination with the TPAR project.
- 16. Business Process Analysis:** A TPAR consultant conducted a business process analysis for the auditing and legal department. The recommendations are expected to be implemented by the DGII.
- 17. Training on Change Management and Strategic Planning:** Training on change management and strategic planning was delivered to 17 officials at the DGII executive level.
- 18. Basic Management Training:** Upon request of the MOF, a second training on Basic Management was delivered to 19 officials at the highest executive level of the DGII and the MOF.
- 19. Fiscal forecasting training:** The project consultant worked with the UPET in the development of a new strategy of fiscal studies and micro simulation models. 13 official of UPET were trained.
- 20. Training in Java Developer:** Training on Java Developer was delivered to the 22 officials from the DGII's IT Department.
- 21. Training on Taxpayer Service Techniques:** Training on taxpayer service techniques and strategies was delivered to 30 officials from the Taxpayer Service Department.
- 22. Training on Financial Investigations Techniques:** The Office of Technical Assistance of the US Department of the Treasury delivered a training in Financial Investigations Techniques with emphasis on criminal activity and Anti-Corruption.

The training was attended by 30 officials of the Criminal Investigation Unit, Anti-Corruption Unit, Fiscalia and the Dirección General de Aduanas of El Salvador.

2. Introduction

USAID commissioned Development Alternatives, Inc. (DAI) and its TPAR team to design and implement a program for modernizing and improving tax policy and administration in El Salvador. The project goals are to maximize tax collection and minimize evasion without increasing the tax rates.

USAID and the General Directorate of Internal Revenues (DGII) have prioritized several key areas for the TPAR team to target in our efforts to help modernize the tax administration, including: improving audit skills and procedures; collecting higher quality information on taxpayer wealth/income and financial/commercial transactions; improving information technology infrastructure to manage taxpayer information, cross-reference taxpayer data, automate tax administration processes, and improve online taxpayer services; training; creating and/or strengthening offices of Tax Analysis, Taxpayer Current Account, Stop filers and Delinquents, Tax Investigation, and Excise Duties; establishing a Call Center to assist taxpayers; and advising on analysis and drafting of new regulations and legislation.

The TPAR project is working with the DGII to help them achieve their targets for the tax administration:

- Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009.
- Achieve a 50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.
- Successfully implement the current tax reforms recently enacted.

To assist the DGII in their progress towards these targets, DAI and USAID have set the following goals for the TPAR project:

- Build the capacity and systems required to achieve the MOF's ambitious revenue targets;
- Establish the impartial, transparent, and rigorous procedures necessary to reduce tax evasion; and
- Strengthen the analytical abilities necessary for the DGII to gauge the fiscal impact of current law and proposed reforms and to serve as an ongoing source of expert advice to senior policy makers.

3. Activities and Quarterly Results

A more detailed description of activities completed and results achieved in the sixth quarter include:

1. **Development of the new Current Account System:** As agreed with the MoF and USAID, the project is developing the current account application using Oracle and Java Builder. The vision document was modified upon request of the DGII, and the application is currently in development. The project has been facing several difficulties; one of those is the necessary technical conditions that the project requested of the MoF. DINAFI (the MoF's IT Division) did not, as promised, provide a server for development. Nevertheless, the project has continued with the task successfully (see attached document for more details). Every month, we conduct a presentation for the DGII of the advances of the system.
2. **Development of the Taxpayer Registration Application:** The Taxpayer Registration Application had some changes in the vision document, and now the development continues successfully (see attached document for more details). The development of this application has been going through the same difficulties as the current account, noted above.
3. **Development of the Call Center system:** The call center system was developed and all the necessary testing was performed. The systems are ready to be used, and the counterpart IT expert from DGII is prepared to continue managing the system. There are currently 5 operators at the call center. Since September 2006, the project has requested that the DGII hire 20 people for the Call Center; however, these staff have still not been hired. The project has coordinated the necessary training for the team to be hired. Once they are in place, they will be in a 2 month training program that will include:
 - Tax Code
 - Income Tax Law
 - Vat Law
 - Administrative and technical process and procedures of the DGII
 - Management of the CAT Consultation System developed by TPAR
 - Use of the call center program
 - Processes and procedures of the call center

As far as it is a deliverable of the project, it is important to clarify that it is ready to be delivered. We are expecting to have the personnel in place and trained soon. In the meantime, a training of the current personnel has been developed, and will be delivered the first week of February.

- 4. Development of the Data Warehouse:** The UPET (Office of Tax Analysis) is working with the TPAR consultants to develop the vision document. The project has also been developing the demos and data models; but we continue to wait for the DGII to provide the necessary data (see attachment for more information). It is expected that the information will be uploaded during the next period. Additionally the DGII has been refusing on supporting the TPAR consultants on the development of the Data Mart.

It is important to highlight that, although the TPAR COP has been taking initiative in the procurement of the information from other entities (DGA, DGT, CNR, Pension Funds), it is the responsibility of the DGII to provide the data to TPAR, to upload the data, and to continue doing so in the future. This is a key issue: if the information is not procured at the right time every year, the cross reference analysis system that the Data warehouse informs will be jeopardized.

- 5. Development of the CAT Information System:** Using an open source program, and with the support of the counterpart team and the Legal Department of the DGII, the project developed an information system for the use of the call center personnel. This system has approximately 500 questions and answers that the Call Center personnel will be using in order to perform their daily work of giving technical, administrative and legal orientation to taxpayers. This system will be posted in the DGII system and used by all approved DGII personnel.
- 6. Development of a new system for returns processing (Digitalization):** The project developed the new system for return processing that relies on digitalization and structured data recognition (see attachment for more information). This task complies with the task order requirements of a Microfilm system to preserve the returns. The new system enables the DGII to more accurately detect stop filers by improving the quality of returns data. Moreover, it will improve case selection, inform the cross reference analysis system, and inform the current account, among others. Currently the forms F211 (Taxpayer Information Updating) and the F11 (Income tax return) have been redrafted and adjusted, to enable their processing by the new system. By February, the two forms will be processed using the new system. During the next quarter, the VAT, Excise, Income Tax Withholding and Account Payment returns will start being processed through the system developed by TPAR.
- 7. Data procurement:** In order to create a cross reference analysis system (CRAS), the project requested that the DGII retrieve select third party data. The project, in coordination with the counterpart team, has been working with different entities to start this data procurement process, with the understanding that it is the DGII that has the legal power and responsibility to provide the data.

First, we identified the sources of information that could be useful for the CRAS and the technical conditions required. Then the counterpart team made contact with the various sources, and determined procedures for procuring the data.

Among other entities involved in the process are the CNR, Sertracen,² Pension Funds, DINAFI, Credit Cards, etc.

- 8. Creation of the Supervision and Control Office:** Because there is a lack of clear division between the normative and the operative functions at the DGII, the project proposed the creation of an office of Supervision and Control. This office will be in charge of supervising the operative offices of the DGII to ensure fulfillment of the rules, procedures and regulations, as well as to establish protocols and productivity targets. The office will develop manuals and procedures and will be in charge of their implementation. The chief of the office has been already appointed, so the project has coordinated with him in the selection of personnel. The agreement that will create the office is expected in the next quarter. The project already has the computers required for the new office.
- 9. Facilitated assignment of 2 prosecutors from the Attorney General to DGII:** The COP requested that the Attorney General assign two prosecutors to the DGII. Those prosecutors will be in charge of the cases that the Criminal Investigation Unit and the Anti-Corruption Unit submit to the Attorney General's office. The Attorney General assigned one prosecutor, who assisted in the training of financial investigation. The second prosecutor is expected in the next quarter.
- 10. Facilitated Customs data procurement and cooperation:** TPAR contacted the COP of the USAID project in DGA (Customs) and began joint coordination of a common effort to share information and develop an information system that can help both entities. After several meetings, TPAR and the DGA project agreed to develop a joint data warehouse and schedule the different stages of the project. This effort will be a part of the Cross Reference Analysis System. The breakdowns in information sharing between the two entities are quite serious, and this is one of the most complicated issues for this effort. It is expected that under this joint activity, finally both entities can use the information of the other without restriction.
- 11. Facilitated cooperation between the DGII and the DGT (Treasury):** One of the issues that affects the taxpayer current account is the information breakdown between the DGII and the DGT. The DGT submits the tax returns to DGII with a delay of 45 days and the payment data is submitted with a delay of more than 3 months. The result is a current account that is unreliable, with significant discrepancies between the DGII's and DGT's payment information. To address this problem, the TPAR Project coordinated the negotiation of an agreement between the two entities that will compel the DGT to submit payment information online to the new current account system (developed by TPAR on Oracle-Java)

² CNR refers to "Centro Nacional de Registro", which is the office responsible for business and property registration. Sertracen is the office responsible for vehicle registration.

and submit the returns within 4 days. This is a dramatic improvement over the 2-3 months this process required in the past. The agreement was signed on November and is now in force.

12. Administrative and Functional Modernization Plan: Since November 2005, the project has been recommending the need for an administrative and functional reform that clearly separates the normative and the operational functions at the DGII. This issue was discussed with an IMF expert that requested a meeting with the COP. The COP explained the recommendation provided by the project (Jacobs 2005) regarding the issues and the need to start the process as soon as possible. The IMF agreed with TPAR on the need for administrative reform that separates the normative functions and the operatives. However, the MoF has still not reached a decision on this. The project will continue to promote this reform.

13. Development of the Plan for the Implementation of the Call Center: Once the Call Center system was finished, the project developed a task for the implementation of the call center. A TPAR consultant conducted an assessment of the current conditions and offered a plan and recommendations for the center's implementation. Based on the recommendations, the project requested the appointment of a Project Manager in the DGII and the necessary logistic conditions for the right implementation of the call center (Garcia 2007). Though 20 staff members were requested for the call center, only 5 have been assigned to date. A training program will be delivered in February to these 5 officials. As the Call Center is a deliverable of TPAR and the system is ready to be implemented, the system will be formally delivered to the DGII by the end of February.

14. Benchmarking update: TPAR and the counterpart team updated the benchmarking study (see annex I) with the data of the year 2005 and the available data for 2006. An analysis of the 2005 benchmarking will be ready in the next quarter. It is important to highlight that the UPET has been reluctant to share data with the project and the counterpart team. Their refusal to cooperate has required the project to enlist the help of USAID, to take up the issue directly with the Ministry of Finance.

The TPAR COP requested that the UPET begin updating the Benchmarking Study as part of their regular function, so that it can be used on a permanent basis by DGII to monitor its improvements and failures. The Unit assigned an official that has been working with the team in the process of developing the analysis document so they can continue with the task.

15. Tax Treaty initiative: In coordination with the OTA of the US Department of the Treasury, the COP had a meeting with the Vice-Ministry of the MoF regarding the reactivation of a tax treaty for the exchange of information between the United States of America and El Salvador. The Vice-Ministry expressed the GOES

interest in the treaty and said that they are ready to begin the negotiation rounds. The project will coordinate the efforts with the US Department of the Treasury.

- 16. Business Process Analysis:** TPAR conducted a study of the current business process of the Audit Function and the Tax Assessment Function at DGII. The purpose of the task was to evaluate the need for changes and improvements in these areas so their productivity could increase and efforts toward tax evasion control could improve. The findings of the study are important: the DGII current system is far from the best international practices (Jacobs Dec 2006). It is important to highlight that the office of UPET should be fully dedicated to conducting fiscal analyses and coordinating strategic planning, instead of audit case selection and Audit Division performance control. Mark Gallagher and Arturo Jacobs recommended that these two functions be transferred to the Audit Division and the Supervision and Control Unit respectively. The project is expecting the DGII to decide whether the changes will be made so we can support them on its implementation.
- 17. Training on Change Management and Strategic Planning:** As noted in several project assessments, the DGII has no policy for strategic planning. During this quarter, the project delivered training to 17 managers of all DGII areas, (with the exception of the Audit Department, which already received training on strategic planning for audit in July 2006). During the training and the following week the attendees developed the strategic plan for their offices for the year 2007. These were the first strategic plans developed within these offices in the history of DGII. The commitment of the DGII has been to continue developing this task on a permanent basis.
- 18. Basic Management Training:** Based on the request of the MoF, the Basic Management Training was delivered again. This time, 19 officials at the top level of the MoF and the DGII attended the training. This training has been very successful and is helping the MoF to change the management practices to orient towards productivity and high performance of the various offices. The two instructors worked with the trainees in the proposal of a project that they will implement over the next six months. After this period, the TPAR consultants will deliver a 4-day workshop on implementation of the new management strategies.
- 19. Fiscal forecasting training and recommendations:** One of the tasks of the TPAR project is the strengthening of the Office of Tax Analysis (UPET). Mark Gallagher conducted an assessment, delivered training, and offered recommendations for the improvement of UPET. Thirteen officials were trained on the management of a micro simulation model; they are currently implementing this model using the monthly data series. They expect to get more information from the Central Bank to start running the model for the annual data series. Additionally the consultant delivered a plan for studies to be performed, and recommended that the DGII hire more economists for the Office of Tax Analysis. As noted above, the project is still waiting for the DGII to determine whether to

transfer the function of case selection from the UPET to the Audit Division, and audit performance monitoring to the Supervision and Control Unit. This restructuring would allow the UPET to be fully dedicated to performing the functions of tax analysis and planning, in line with international best practices.

- 20. Training in Java Developer:** In order to create an acceptable level of technical capabilities in the MoF Counterpart Team and the College Students Collaborators, the TPAR Consulting team created a group of training sessions focused on the new technologies applied in the technological platform migration project (J2EE & Oracle). This training ran for 1.5 months, (from Nov 15th to Dec 20th, 2006), with two or three sessions per week and some practicing tasks. For most of the sessions, a video was recorded. Both video and source code are available at a network shared resource, to ensure the accessibility to this information.
- 21. Training on Taxpayer Service Techniques:** In addition to the call center implementation plan, training in taxpayer service techniques was delivered to a group of 30 DGII officials. This training emphasized the need for the tax administration to change the general belief that because the taxpayer must be enforced to comply with his/her duties, there is no need to offer a quality service. Becoming more customer-service oriented is a key goal of the call center and taxpayer service center.
- 22. Training on Financial Investigations Techniques:** In coordination with the OTA of the US Department of the Treasury, training in Financial Investigations Techniques regarding criminal investigation of tax fraud and Anti-Corruption was conducted. Three OTA consultants delivered the training (1 former IRS Criminal Investigation Supervisor and 2 former FBI Supervisors) to 30 officials of the MoF. The project extended an invitation to the USAID project at customs in order to include 2 officials from DGA. The appointed prosecutor assigned to DGII's Criminal Investigation Unit attended the class.

5. DGII Performance—Quarterly Review

The Task Order document mandates that DAI report quarterly on the Government of El Salvador's (GOES) progress towards the following targets:

- Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009.
- 50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.
- Successful implementation of the current tax reforms recently enacted.

Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009. The Ministry of Finance (MOF) target for 2009, according to the Task Order document, is a tax ratio of 15.2% (3% increases from 2004). The revised target adjusts the goal to achieve a 2.2% increase, with a tax ratio of 14.4%. These goals will be reviewed by February 2007, once the 2006 data is available. If needed, the goal rate will be adjusted.

Continuing the pattern throughout the TPAR project, revenues have been increasing significantly during the last 3 months.

INTERNAL VAT

	2004	2006/07	Difference	Growth Rate	2005	2006/07	Difference	Growth Rate
November	36,640.0	43,739.2	7,099.2	19.4	39,875.5	43,739.2	3,863.7	9.7
December	37,811.6	48,249.2	10,437.6	27.6	43,412.4	48,249.2	4,836.8	11.1
January 1/	48,520.4	64.325.2	15.804.8	32.6	63,934.8	64.325.2	390.4	0.6
Average	122,972.0	156.313.6	33.341.6	27.1	147,222.7	156.313.6	9.090.9	6.2

Thousand of Dollars

Source: Collections Report, Treasurer's Office - MOF

The results in the collection of the VAT are significant, compared with the year 2004. The increase between these two periods was 19.4% for November, 27.6% for December and 32.6% for January. The growing rate compared with the previous year 2005 for November and December and 2007 for January. In November, internal VAT returns increased by 9.7%; in December, they increased by 11.1%; and in January they grew at a rate of 0.6%.

IMPORT VAT

	2004	2006/07	Difference	Growth Rate	2005	2006/07	Difference	Growth Rate
November	18,810.3	69,933.2	51,122.9	271.8	58,304.8	69,933.2	11,628.4	19.9
December	50,564.3	67,528.2	16,963.9	33.5	62,747.2	67,528.2	4,781.0	7.6
January 1/	47,600.3	66,177.1	18,576.8	39.0	56,267.2	66,177.1	9,909.9	17.6
Average	116,974.9	203,638.5	86,663.6	74.1	177,319.2	203,638.5	26,319.3	14.8

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Import VAT witnessed a significant growth over the same period. Between 2004 and 2007, the import VAT grew at rates of 271.8% in November, 33.5% in December, and 39.0% in January. The growth rates compared with 2005 for November and December and with January 2006 are significant: import VAT grew by 19.9% in November, 7.6% in December and 14.8% in January.

INCOME TAX WITHHOLDING

	2004	2006/07	Difference	Growth Rate	2005	2006/07	Difference	Growth Rate
November	22,365.1	30,783.0	8,417.9	37.6	26,096.7	30,783.0	4,686.3	18.0
December	22,697.7	33,346.6	10,648.9	46.9	28,795.4	33,346.6	4,551.2	15.8
January 1/	38,014.8	57,997.4	19,982.6	52.6	50,004.6	57,997.4	7,992.8	16.0
Average	83,077.6	122,127.0	39,049.4	47.0	104,896.7	122,127.0	17,230.3	16.4

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Income Tax withholding registered significant improvements compared with the same period in 2004. The rates increased to 37.6% in November, 46.9% in December and 52.6% in January. Between 2005 and 2006, the rate for November was of 18%, for December of 15.8% and January 2007 compare with the same period in 2006 was 16.0%.

ACCOUNT PAYMENTS

	2004	2006	Difference	Growth Rate	2005	2006	Difference	Growth Rate
November	13,655.8	22,213.8	8,558.0	62.7	18,740.9	22,213.8	3,472.9	18.5
December	15,068.0	24,421.4	9,353.4	62.1	21,746.1	24,421.4	2,675.3	12.3
January 1/	21,158.3	31,084.5	9,926.2	46.9	28,186.6	31,084.5	2,897.9	10.3
Average	49,882.1	77,719.7	27,837.6	55.8	68,673.6	77,719.7	9,046.1	13.2

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Account Payments also registered important increases compared with prior years. Compared with the year 2004, Account Payments increased by 62.7% in November,

62.1% in December, and 46.9% in January. Between 2005 and 2006, rates increased 18.5% in November, 12.3% in December. From January 2006 to January 2007, rates increased by 10.3%.

During the quarter, tax collection has exhibited a very stable behavior, following the growth path of the five quarters. This continued growth is good news for the current administration, which is holding up improvements in tax collections as a key political success. It is TPAR's challenge to continue supporting the DGII keep up these gains and to reduce tax evasion.

50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.

The second GOES target is to reduce tax evasion in VAT, income tax, and excise tax by 50 percent. The TPAR project conducted a tax evasion study and a benchmarking study to measure and track this evasion. The UPET (DGII Office of Tax Analysis) has agreed to implement the evasion study every year during the second quarter.

The TPAR benchmarking study estimated VAT evasion to be 40.9%; against a Central American benchmark of 25% and an international benchmark of only 10%. Based on the studies developed by the TPAR Team, the goal agreed with DGII and USAID has been the reduction of tax evasion to 30.7%, meaning a reduction of 25% on the evasion rate. Nevertheless, the TPAR Team will work with the vision of achieving a 50% reduction of tax evasion. This early indicator suggests that there is significant room for El Salvador to improve VAT compliance.

The project is still waiting for the tax evasion study for 2005 that will be developed by the UPET in the month of April. This delay is due to the fact that the Central Bank will not have the input-output matrix prepared until the end of March.

During the quarter, the project conducted a Business Process Analysis that made recommendations for the reform of the current processes and structures of the control areas. If accepted and implemented by MoF, this will help the DGII to improve the voluntary compliance and reduce evasion.

Successful implementation of the current tax reforms recently enacted: The project has been working in the development of a long term strategy to successfully modernize the GOES Tax Administration and at the mean time help them to implement the fiscal reforms of 2004. Among other activities the project has been performing the following activities:

1. **Business Process Analysis:** In order to assess and recommend the current business process of the control areas the TPAR project developed a Business Process Analysis and recommended the tax administration to change the current structure in order to adjust it to the international best practices.

2. ***Development of Current Account Application:*** This application will help detect stop filers and improve compliance. Additionally the Solvencia will be issued in an efficient and safe manner with the new current account.
3. ***Development of the Taxpayer Registration application:*** With a well structured and updated Registry, the DGII's control and detection programs will be more effective.
4. ***Development of the Call Center System:*** The Call Center will provide information to taxpayers on administrative, legal and procedural issues, helping them to understand their duties and making it easier for them to comply with the Law. It will help the tax administration avoid the constant presence of taxpayers within the tax administration offices.
5. ***Development of the Data Warehouse:*** The data warehouse will be the basis of the audit case selection program, allowing the tax administration to have an automated system to detect inconsistencies and tax evasion schemes.
6. ***Supervision and Control Office creation plan development:*** The Supervision and Control Office will help the TPAR Project with the implementation of the new system by documenting and overseeing the changes to management systems and business process.
7. ***Assignment of prosecutors from the Attorney General's Office to the DGII:*** To improve understanding of the new regulations for fiscal crime enforcement, TPAR suggested that 2 prosecutors from the Attorney General's Office provide on-the-job training for the DGII's Criminal Investigation Office. This is expected to improve prosecution of fiscal crimes.

6. TPAR Project Performance—Quarterly Review

Finally, we measure the TPAR project's performance by comparing our activities and progress against the performance standards set out in the Task Order document, (from Section 5, pp. 12-13 of the Task Order):

Performance Standard	TPAR Progress
Effective implementation of tax reforms	The TPAR project continued to support the DGII on the implementation of recommendations regarding the fiscal reforms. Qualitative and quantitative highlights have been discussed throughout this report.
Achievement of tax collection targets measured on a quarterly basis	TPAR has been evaluating the DGII's performance against collections targets for the quarter, and the rates and collections have surpassed the expectations.
a) Enrolls all entities subject to the taxes according to law, on master files (tax database)	During this quarter, the agreement between the DGT and the DGII was signed. Efforts to secure additional agreements between the DGII and other entities like the DGA and the CNR are ongoing.
b) Monitors filings against the master files	The vision documents for the Taxpayer Current Account, the Taxpayer Registration, the Management Control and the Data Warehouse, were developed and adjusted to meet new requirements.
c) Ascertain liability according to the law	The project continued supporting the strengthening of the Criminal Investigation Office and the Anti-Corruption Office. Training for both units was coordinated with OTA, and strategic planning for the units was implemented with support from TPAR.
d) Monitors, records, and controls payments in a timely manner	The new taxpayer current account application is currently in development. The problem of breakdowns between the DGII and the DGT has been addressed, so that payments can be updated in the system and delivered a timely manner.
e) Compares payments at decentralized sites with forecast payments	The procurement of the data for the data warehouse continues. During this quarter the necessary arrangements were made to start building a data warehouse with customs. The incorporation of customs information will help detect discrepancies and estimate payments. Additionally the digitalization system was finished and is in the preliminary stage of production now, making payment and returns data more accurate and reliable for forecasting purposes.

Performance Standard	TPAR Progress
f) Selects and performs audits and collections activities fairly and effectively	The project is preparing for the income tax training with the DGII, to be delivered in the next quarter.
g) Assists taxpayers with compliance through an efficient call center	TPAR finished the development of the Call Center System and the Consultation System. It is expected that the DGII will hire the remaining necessary personnel. Additionally a plan for the implementation of the Call Center was developed by one of the TPAR experts, and the necessary recommendations were provided to the DGII.
h) Establishment, scheduling, and achievement of a set of key international benchmarks on tax policy & administration.	The TPAR team provided training to UPET officials in benchmarking. In January, UPET was made responsible for updating the benchmarks so they can be tools used by DGII on a permanent basis.

ATTACHMENTS

TPAR IT Development Status Report

CDT (Tax Declarations Scanning Center)

During the last trimester of 2006, Julian Rivera and Victor Bernal developed the first release of the CDT (Center for Scanning of the Tax Declarations) to be delivered by the end of 2006. The capabilities of the first release are:

1. Definition of the Tax Forms into the Formware server. 6 manual and 6 DET tax forms have been defined and are ready for scanning purposes.
2. Scanning of Tax Declarations: 12 forms have been defined in the software that will scan the tax declarations into the Imaging Server. 6 Tax Forms will be received manually, those declarations will be scanned and recognized the same 6 Tax Forms will be received via DET (Declaración Electrónica Tributaria), those declarations are going to be scanned only because the structured data has already been entered into the transactional system, lacking only the actual image of the declaration filed by the taxpayer. The training of the end user that will perform the scan has already been done.
3. Recognition of the bi-tonal images. The recognition servers are ready to process the bi-tonal images of the tax declarations to create structured data from the images.
4. Compression of color images. The compression server is ready to compress the color images obtained from the tax declarations processed by the CDT.

During January 2007, the CDT began operations. The Tax form 211 (Tax Form to update address to receive notifications) was completed, and can now be received by personnel in the CDT. The capabilities of the second release are:

1. Data perfection of the Tax Form 211: The personnel in data perfection section of the CDT were trained in the correct use of the application to perfect the data recognized by the recognition servers. Lack of personnel is responsible for the CDT not being able to finish the 211 Tax Declarations received in January 2007. It is expected that the declarations will be perfected during February 2007.
2. Upload of recognized structured data: the uploading of the data recognized during the recognition and data perfection process of the tax declarations processed in the CDT has concluded for the Tax Form 211. All the batches (27) have been already uploaded and verified by DGII personnel. The process of uploading 211 tax declarations is already in place and running unattended. It's expected that during February 2007 the process will finish with the remaining batches of declarations.

3. The hard disk space to host 2.5 TB of images has been prepared in the Imaging server. The hard disk space to access the color images of the Tax Declarations filed by taxpayers was setup and is being utilized by 211 Tax Declarations (filed manually or through DET).

Migration of Applications

During the last trimester of 2006 the personnel in charge of the migration of the applications from Informix-Powerbuilder to Java-Oracle performed some various configuration tasks such as setup of the development tools set (Eclipse, subversion, Maven, Bugzilla) needed previously to engage in the development of the RUC (Registro Único de Contribuyentes), CC (Cuenta Corriente) and CG (Control Gestión) and other modules. TPAR programming team performed training and knowledge transfer to the technical counterpart team, such training included the following topics and technologies: JSP, JSTL, JDBC, Struts, CSS, Tiles, Junit, Displaytags, Ireport and JasperReport, Hibernate, Spring and PL-SQL.

The configuration and setup of the development database server and setup of the development environment in the clients PCs, the configuration of the application server (OAS) was already performed, the server configuration was concluded by December 2006.

Evaluation of online replication tools was done and the option taken was to perform an analysis of software dependencies of the modules that constitute the application to migrate. The result of the analysis was not to use online replication tools but to break down the development of the migration in four phases, rolling-out 9 modules that needed online data in the first release, 8 modules during the second release, 8 modules more in the third release and the rest of them in the last release.

A security proposal was developed to show the benefits of administering the security exclusively for DGII. However, a MoF-level security solution was required and TPAR's conclusion was to enhance the security provided by DINAFI including DGII in the overall solution.

A proof of concept of the proposed architecture was developed to show the DGII counterpart the programming standards, software technologies, database access practices, to develop applications using the Java technologies previously taught.

RUC (Taxpayers Unique Registry)

During the last trimester of 2006 Carlos Rodriguez and Claudia Rivera worked in creation of commons components, such as, generic DAO (Data Access Object), single table maintenance components and general dynamic utilities components, use and integration of TDD (Test Driven Development) using Junit infrastructure, such utilities are going to be re-utilized by all the programmers and they also create the Catalogs tables maintenance programs. Creation of the Maven repository for automatic building

of the migrated applications. The RUC development team was involved in the revision of the strategic plan for RUC (Registro Unico de Contribuyente) data cleansing.

By January 2007, the RUC development team was able to finish the following features: Generation and control of sequential TIN (Tax Identification Number) numbers; Taxpayers' general information entry; RUC module reports; Administration of printed TIN cards; Report of Inventory of Taxpayers. The percentage of advance of the RUC module is 47%. The vision document and the requirements defined by the end user have been documented using Use Cases and signed by them.

CC (Current Account)

During the last trimester of 2006, The CC development team, Julio Salazar and Juan Carlos Perdomo was able to conclude the creation of the GUI (Graphical User Interface), including tables formats, screen colors, and the integration of common components such as list for information display, including standards for menu creation, common templates for report creation, definition of the infrastructure and standards for Web development and the creation of the security infrastructure including login screen. Business classes were defined for Data Access Objects. The CC team redesigned procedures and suggested to integrate TAIS (Tribunal de Apelaciones de Impuestos Internos) and DGT (Dirección General de Tesorería) into the Current Account, decreasing the time to update the taxpayers' current accounts.

By January 2007, The CC development team finished the following requirements: Complete definition of the requirements, laid out in the vision document and signed by the users; and documentation of the requirements using the Use Case document. The following requirements have been implemented: Analysis of the Current Account such as, payments analysis, balances, details of comments made to the current account, stop filers analysis, and data entry of balances adjustments. The percentage of advance of the CC module is 32%.

CG (Audit control)

During the last trimester of 2006, the CG development team, Nelson Hernandez and Cesar Melendez, was able to conclude the setup of: Messages queuing in OAS (Oracle Application Server) and audit tracking information such as warnings and error messages, creation of the utilities to read and parse the reports defined in XML (eXtensible Markup Language) to be rendered in Jasper Report engine, exception handling in the web architecture selected by TPAR to implement the migration of the applications.

By January 2007, The CG development team finished the following requirements: the Vision and Use Cases documents have been created and signed by the end users, allowing them to implement the following requirements: 9 maintenance to configure the audit process, Update of the audit progress, Case consulting and auditors assign to audit cases. The percentage of advance of the CG module was 15%.

Data Warehouse

During the last trimester of 2006, the Data warehouse development team, Ricardo Ramirez and Jose Martinez, concluded the definition of the files structures needed by TPAR to load the data for the creation of the data warehouse from the following entities: Customs, CNR, Credit Card administrators companies, AFP (pension funds companies) and IPSFA, SERTRACEN (vehicle registry). The years 2005 and 2006 have been requested from the previous institutions for the Data warehouse.

By January 2007 the Data warehouse team is creating a common Data warehouse between Customs directorate and internal taxes directorate. The database structure for vehicles information has been defined and the vision document has been concluded and the development team is awaiting for the entities to send the information to test the Data warehouse.

Call Center

During the last trimester of 2006, the Call Center development team, Renato Bonilla and Rigoberto Pérez, concluded the development of the CAT (Centro de Asistencia Telefónica) and the knowledge database that contains the Frequent Asked Questions asked by taxpayers.

By January 2007 the CAT development team was able to configure the CAT to undergo a testing period in order to put it into production early February 2007. The knowledge database was revised and changed according to feedback by different users.