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Experiences Under the  
U.S. Foreign Tax Assistance Program

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by

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Experiences Under the  
U.S. Foreign Tax Assistance Program

Background

At a White House reception for Latin American diplomats in March 1961, President Kennedy first proposed that the nations of the Americas join together in what he called an Alliance for Progress. This bold new program was to be a 10-year hemispheric cooperative effort to accelerate economic and social development and raise the living standards of Latin America's 200 million people. In outlining his proposal for the Alliance for Progress of the American Republics, President Kennedy pledged financial aid and technical assistance from the United States and said that aid priorities would depend on "demonstrated readiness to make institutional improvements that promise lasting social progress."

At that time it was obvious that tax reform would be a major goal of the Alliance, although the extent of the Service's involvement in the new program was still to be determined.

The Foreign Tax Assistance Program, in a real sense, got its start a few months later at Punta del Este, when the Alliance for Progress was born. It was there that delegates from the Latin American republics and the United States met to frame and sign the Charter establishing the Alliance. A principal feature

of the Alliance, to which the member nations committed themselves, was self-help. In the Declaration to the Peoples of America, the delegates expressly recognized that the "profound economic, social, and cultural changes [under the Alliance] can come about only through ~~the~~ self-help efforts of each country . . . reinforced by essential contributions of external assistance."

It was also recognized then that a basic element of self-help was an improved capability on the part of each Alliance partner to raise through its own tax system the revenues required for economic and social development. To this end, Mr. Douglas Dillon, who was then Secretary of the Treasury and head of the U.S. delegation at Punta del Este, offered U.S. technical assistance to any Alliance partner which asked for help of the United States in strengthening its tax administration machinery. Speaking to the assembled delegates, Secretary Dillon said:

To carry out these principles will often require difficult and far-reaching changes. It will require a strengthening of tax systems so that would-be evaders will know they face strict penalties, and so that taxes are assessed in accordance with ability to pay.

The Latin American delegates themselves emphasized the importance of self-help. One of the major goals affirmed in the Declaration to the Peoples of America was:

To reform tax laws, demanding more from those who have the most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need . . . .

Thus, the Alliance for Progress was officially launched at Punta del Este, and tax reform, including tax administration reform, became an integral part of it.

Within a few months, our Latin American friends began to take up Secretary Dillon's offer. The first request came from Chile, and early in 1962, a small team of Internal Revenue Service specialists, on loan to the U.S. Agency for International Development, arrived in Santiago and went to work as tax administration advisors to the Government of Chile.

In anticipation of a rising volume of requests for assistance from Alliance countries, the Commissioner of Internal Revenue moved ahead to honor this commitment. To this end, he set up the Foreign Tax Assistance Staff in his immediate office to organize and direct the new Program.

This, then, was our posture in the fall of 1962. Our Alliance partners in Latin America had in effect committed themselves to a self-help effort, including strengthening their tax administrations . . . . IRS in turn, in partnership with the Agency for International Development (AID), was committed to deliver the necessary technical assistance . . . . At that time the IRS had little experience in the foreign assistance field, and there was no precedent for this sort of an undertaking. Further, we had no idea of the scope or magnitude of the undertaking -- we did not know whether only one or two countries, or 15 or 20 countries, would ask for help.

In preparing to meet our obligations under this commitment, the following policy decisions were made, among others:

- To assign to the Program the best qualified executives and technicians in the IRS, or from outside IRS, who would make themselves available for overseas duty.
- To create a balanced "Ready Reserve" of IRS officials, who would be available, on call, for short- or long-term assignment abroad. This resulted in the creation of the Latin American Tax Assistance Reserve, or LATAR, for short.
- To develop a system for organizing, managing, monitoring and evaluating the efforts of the IRS teams overseas.
- To develop a comprehensive, long-range program for the orientation and training of key foreign tax officials in the United States, with emphasis on the "managers and decision makers" of the foreign tax agencies.

Almost from the outset the Program has snowballed. For example, when the first LATAR class of 25 selected officers went into training, there was a firm request for only two or three advisors. When they finished their training some months later, all but two or three had been assigned or committed to assignments abroad. Another example: As of September 1, 1963, we had only one country team abroad, in Chile. Three years later there were 21 IRS teams assigned overseas.

How we went about this foundation-laying process, and the results to date, is the story of the Foreign Tax Assistance Program -- under which, in five years, we have given direct on-site technical advice to about 30 developing countries. Today we have 21 long-term teams abroad -- 16 in Latin America and five elsewhere: South Korea, the Philippines, South Viet Nam, India and Turkey.

#### Country Operations

The Foreign Tax Assistance Program overseas is perhaps best characterized by its emphasis on "action". When we started, we found that much of the earlier assistance in taxation had taken the form generally of surveys and reports by consultants, not only from the U.S. but also from other governments and private institutions. As a general rule, the reports had been left behind by the departing consultants for implementation by the host government. In most cases this approach simply did not work because of lack of follow-through action. For that reason we concluded that it was essential for advisory teams to live and work in the country -- specifically, to work with tax officials and technicians, in their offices, and in a shirt-sleeve, pick-and-shovel environment. As a result, the IRS advisory tax teams have their offices right in the tax agencies where the work is, and where our kind of help is needed.

We also found that when a country requested the services of an advisor many months usually passed before one arrived on the scene, because of delays in recruitment, medical and security clearances, orientation, etc. The only solution to this problem, it seemed to us, was to adopt the "Ready Reserve" or LATAR concept, which we did.

The scope of the IRS effort covers the full range of tax administration -- audit, collection, training, administration, data processing, personnel management, taxpayer education, tax fraud, taxpayer appeals, statistics, and the like. The degree to which the advisors go into functions in any one country depends on such factors as the desire of the host government, and its needs and priorities. These questions are often determined in advance of the actual start of a country program at the time we make our survey. As a matter of fact, one of the objectives of our preliminary survey is to make just such judgments in order to determine the size and composition of the tax advisory team.

Our advisory work covers the administration of all national taxes -- direct and indirect.

The IRS teams function, as you might expect, in a strictly advisory role. The host government, in other words, is completely free to accept, modify, or reject their proposals. We serve, in every sense of the word, as consultants -- performing the same role as management consultants whom your own organizations, or our own Internal Revenue Service, in fact, might engage from time to time.

Also, our advisory activity is confined to tax administration. The approach, in a nutshell, is to work with host country tax authorities in devising methods to modernize and strengthen the administration of the tax laws through such means as stepping up and refining the techniques for the audit of returns and collection of taxes, streamlining organizations, installing improved systems and procedures, mechanizing high volume operations, strengthening overall management, introducing a broad range of measures aimed at promoting voluntary compliance, and the like.

Our teams are involved in substantive tax law or tax policy considerations only to the extent that they have a bearing on tax administration. That is to say, our advisory role in the tax structure field is generally confined to the administrative feasibility of existing or proposed tax laws -- from the standpoint of the tax agency as well as the taxpayer community.

#### The Advisors

We cannot talk about the Foreign Tax Assistance Program without talking about the people in it -- the advisors who serve overseas. For the most part, these men are selected from the executive and higher technical levels of the Internal Revenue Service. A few come from state and local tax agencies, and others from universities and from private life. As a matter of policy, the IRS makes available to this Program the best people it has or can get who are willing to go abroad.

The advisors who serve overseas on the long-term tours -- usually for two years, and sometimes longer -- are selected by an IRS panel in Washington. They then come to Washington, under the LATAR concept, to receive intensive training for about 5 to 6 months. The training usually covers orientation about the region of the world to which the advisors are going -- lectures and reading materials provided by the Foreign Service Institute of the Department of State on the economics, politics, and history and traditions of the countries. There is also language training, and what we call "tax broadening" for those who need such training.

Today we have more than 80 advisors -- and their families -- serving overseas on long-term tours. A number of these men, in fact, are on their second two-year tour. These advisors are reinforced from time to time by specialists who are sent over for about two- or three-month tours to work on special problems which, for a particular country, do not require a two-year advisor -- in collection, audit and training, for example, or statistics, personnel management, organization analysis, ADP, and so on. Occasionally, instead of bringing over a short-term specialist from the U.S., we will arrange to detail him from another team where he is serving a two-year tour.

In Washington, on the Foreign Tax Assistance Staff, our overseas teams are backstopped by a small staff, most members of which now have had some foreign service.

Stateside Training and Mobile Training Teams

This on-site advisory and assistance program overseas is only one element of the overall IRS-AID effort. The second ingredient involves the observation visits and training of foreign tax officials in the U.S. The two are closely related.

In developing our program for the orientation and training of foreign tax officials in the United States, several brand new concepts have been introduced, which were designed to heighten the usefulness and effect of this effort.

First, IRS designs and then schedules for as much as two to three years in advance a series of courses in the basic functional areas of tax administration -- audit, collection, management, public information, training, and so on. This advance planning provides the lead time which is necessary in developing countries, AID, and our own Service. We call this our INTAX program -- INTAX standing for International Tax Administration Training Series.

Second, the courses are aimed primarily at the "decision makers and managers" of the tax agencies we serve. These are the men -- and some women -- who are responsible for getting the job done. They presently occupy the top and other key positions or are being groomed for positions of leadership.

Third, the visitors are grouped on the basis of their positions, or the positions for which they are being groomed. That is to say, for example, a particular course is planned for the directors of training -- or audit, or collection -- from about six to fifteen Spanish-speaking countries.

Fourth, the training courses are conducted in the language of the participants -- Spanish, Portuguese or French. This not only increases the effect of the training but, of equal importance, it also eliminates the need for participants to know English and in this way greatly broadens the base of the group which is selected to receive this training.

And fifth, all of the courses, although built largely around classroom work and seminars, include observations of IRS and state and local tax operations throughout the United States.

The impact of the INTAX training on the strengthening of tax administration in the developing world is, without question, very high indeed. The evidence clearly shows that in country after country the officials, on their return home, have changed their attitude towards "change", and that they are influential in introducing measures which apply many of the concepts and techniques which they picked up in the U.S. -- or learned from their counterparts from other countries over the lunch or dinner table during their U.S. visit. Also, the evidence shows that the training received here produces a ripple or multiplier effect as the returning officials personally conduct training courses or seminars which are built around the experiences which they acquired here. One major country, for example, asked that we set up a special INTAX course for a second group of ten of its key officials following the dramatic change in attitudes achieved with an initial group which earlier had been exposed to U.S. methods. The tax official told me in confidence that four of the second group were opposed to change in any form and he was confident that a similar exposure to U.S. methods would work to our mutual advantage. He was right. The officials returned to their country with new insights and are now among the pacesetters for

Finally, the INTAX series has unquestionably contributed to the overcoming of national barriers in Latin America, which has led to direct communications and visits between Directors General of Taxation themselves, middle level executives, and even those at the purely technical level.

This is one phase of our Stateside training for visiting tax officials -- the conduct of training courses in a broad range of tax administration subjects -- courses which are planned and announced well in advance. The second phase consists of tailoring or designing programs for visitors for special purposes which cannot be fitted into the INTAX schedule. Sometimes the visitors are VIP's -- a cabinet member, for example, who is interested in a one- or two-day overview of the Service. Or the visitors -- and this is currently an actual case in point -- may be a top level management team of tax officials who are here for special observation and orientation which will enable the men, on their return home, to work very closely with the IRS team in their country during the final stages of implementing a comprehensive reorganization.

All in all, over 1200 foreign tax officials from about 87 countries have visited the Internal Revenue Service during the past few years, and the number is now running somewhat over 300 a year. These officials come primarily to learn about the U.S. tax system, and they spend most of their time with us and with various state and local tax organizations. Also, and importantly, they

see U.S. tax people at work, which often in itself is an educational experience. They also see and have dealings with Americans who are in no way connected with tax administration, which gives them a chance to observe the American way of life at close range. The impact of our Stateside training effort on these leaders, and possibly future leaders, therefore necessarily goes far beyond tax administration as such -- a sobering consideration which we keep in mind at all times.

Before leaving the subject of training, I wish to mention one other factor -- the mobile team concept. We have found that a considerable impact can be made in the audit and collection areas -- which are absolutely basic in any tax administration system -- by sending to particular countries small teams of audit and collection technicians from the U.S. to give concentrated courses in the language of the country on audit and collection techniques. The courses of instruction generally last for about six weeks. Included in the class always are three or four local officials who will serve as instructors in subsequent courses for months and years to come after the mobile team has departed. For example, the first mobile audit team trained twenty auditors in Peru -- but the Peruvian instructors who participated with the IRS instructors then trained an additional 100 agents (5 classes) within one year.

Accomplishments by Host Countries

By and large, the results of the Foreign Tax Assistance Program are encouraging. In fact, the tax program has been described in the press, within AID and the developing countries as one of the most successful in the overall AID effort. And, fortunately, headway, or the lack of it, can be gauged in hard measurable terms -- that is, in revenues collected, tax returns filed, returns audited, delinquent tax cases closed, and so on.

But before we touch on some country examples and on several of what we call Indicators of Progress, let me make very clear one of the basic facts of life of our effort. Progress, or the lack of progress, in modernizing a tax administration depends most importantly on the will and the determination of the host country to move ahead. President Johnson expressed that thought most recently at the Punta del Este meeting of Western Hemisphere leaders in April 1967 when he said:

All that has been dreamed since the Alliance [for Progress] started can only come to pass if our hearts and minds become committed to it . . . . Here in the countries of the Alliance, a peaceful revolution has affirmed man's ability to change the conditions of his life through the institutions of democracy. In your hands is the task of carrying it forward.

If the will is there the country will move ahead, with or without outside technical assistance. All we can do as catalysts, for a willing and determined host government, is to help and guide -- and on the basis of our experience and past mistakes, to accelerate

the process. Predictably, the rate of progress varies from country to country. Since the start of the Alliance for Progress total central government revenues among the Latin partners has gone up about 25 percent in real terms. Tax receipts contributed mostly to this increase, outgaining receipts from other sources. In eight member countries tax revenues went up more than 50 percent. In five countries, tax collections rose between 30 and 50 percent.

Before getting more specific, I want to raise this one note of caution. Increases in tax revenues can be generated by factors other than tax administration improvement. For instance, increasing economic activity will usually generate higher tax receipts, as will inflation, imposition of new taxes, or raising tax rates. There is no question, however, but that the tax administration improvements installed by the tax agencies have materially contributed to increased revenues in these countries.

Now I would like to touch lightly on several country examples which reflect some of the results of the improvements adopted by host governments. This chart (No. 1), for example, reflects progress in Panama's audit program, and shows the cumulative annual amount of additional assessment, on a monthly basis. The year 1963 was entered to give a "before and after" contrast. The audit reform program in Panama began in August 1965, and the factors leading to these improvements include the training of auditors, supervisors, and managers; a reorganization of the audit function; development of both field and office audit programs; and improved procedures and systems for the classification and selection of returns for audit.

The Dominican Republic presents another story. You are, of course, well aware of the difficulties which have occurred in that country since 1965. Yet despite its internal problems, there has been significant progress in tax administration improvement in the Dominican Republic. The next chart (No. 2) dealing with the audit program, speaks for itself. And this chart (No. 3) concerns in-service training, and bears directly on the success of the audit effort. The Training School for tax employees has been firmly implanted within the structure of the Dominican tax administration, and the number of trained officials is still rising in 1967. It has a Director and Assistant Director, both of whom have received orientation and training in the U.S. through the IRS INTAX Program.

Another example is Brazil, where a pilot study was made to determine the extent of compliance with the filing requirements of the income tax laws. The pilot study disclosed a delinquency rate among professional self-employed of some 50 to 60 percent. As a direct result of the concentrated efforts by the Brazilian tax officials which followed this disclosure, net tax collections went up sharply, and the curve is still on the rise. Brazil, I might add, has a highly dynamic tax reform program well under way, and, among other things, is concentrating on training and management improvement at the executive levels.

Honduras came into the program only about 1 1/2 years ago, but has made a fine start. The first Honduras chart (No. 4) shows that both the sales and income taxes, the country's biggest revenue producers, have increased markedly since the audit improvement project began in August 1966. In fact, 1966 showed a 50 percent increase over 1965, and it appears from 1967 data, through August, that Honduras can expect further improvement.

The second Honduras chart (No. 5) is on a more specific aspect of the Honduras audit program, namely, the income tax. About 10 percent of income tax returns received are audited. The chart clearly reflects the improving quality of the audit program as the yield per case has markedly increased.

The next two charts (Nos. 6 and 7) on Guatemala show a different dimension in our program. One of Guatemala's chief needs was in the area of reappraisal of its real property for tax purposes. In January 1965 Guatemalan officials were sent to Puerto Rico for four months of training in modern appraisal techniques. At the same time, the real property tax office was partially restructured. Upon the return of these officials, a mass reappraisal program was initiated, in May 1965, beginning in the wealthiest areas of Guatemala City, then phasing to the less affluent areas of that city. As the program advanced through this second phase, it became clear that a point of diminishing returns was being reached. The program was halted November 1965 and new plans developed for (1) continuing

the program on a reduced scale in Guatemala City and (2) expanding the program to other cities in the country. These new plans were activated in February 1967.

Next to tax receipts, a good hard indicator of progress is tax returns. The next chart (No. 8) shows what happened in Ecuador as a result of a carefully planned and well organized taxpayer education and assistance program -- twice as many income tax returns voluntarily filed in 1965 over 1964, and another substantial increase in 1966.

The countries outside Latin America have achieved comparable successes. India has just decided on a basic restructuring of its direct tax administration, following a pilot test of a new approach suggested by the IRS survey team. Briefly, the team proposed a shift from India's highly integrated system of administration by type of direct tax to one that was "functionalized". The Government of India tested the new functionalized concept in four of India's 20-odd regions, with some dramatic results. In the last four months of 1966, net revenue collections in the test regions were up 51 percent over the last four months of 1965, compared to an increase of only 15 percent in the other regions. In additional tax assessed, the increase in the test regions was 141 percent, compared to 41 percent in the regions operating under the old system. And in assessment cases disposed of, the increase was 33 percent in the test regions versus 12 percent in the nontest regions. No increases in personnel were involved.

Also, South Viet Nam, although deeply involved and preoccupied with its struggle for survival, is engaged in a comprehensive tax improvement effort. For example, Viet Nam this year installed a withholding system on wages and salaries, and with impressive results. In fact, withholding was the first major assignment the IRS team was faced with when it arrived in Saigon in September last year. Withholding had just been decreed, and it was to go into effect on January 1, 1967. In the first five months of 1967, 164 million piasters were produced by withholding alone, compared to 135 million piasters collected in all of 1966 from wages and salaries. More importantly, the withholding process is expected to identify about 60,000 taxable wage and salary earners this year, compared to only 14,000 who filed returns last year.

South Korea's collections went from 29 billion won in 1964 to 42 billion in 1965 to 70 billion in 1966. President Park of South Korea has referred to this as the "Quiet Revolution" in tax administration.

The structural improvements giving rise to these advances are widespread, and cut across the whole range of tax administration. Thus, five years ago, in the 21 countries which have asked for long-term assistance, few had meaningful programs for:

- In-service training. Today all 21 have them.
- Taxpayer education and assistance. Today 16 countries have them.
- Productive examination of returns. Now in 15 countries.
- Collection of delinquent accounts. Now in 18 countries.

- Overall general management improvements. Now in 13 countries.
- Efficient processing of tax documents. Now in 10 countries.
- ADP -- now, at least on a limited basis, in 9 countries.
- Management statistics. Now in 9 countries.
- Special fraud investigations. Now in 7 countries. In three of these countries, for the first time in their modern history, taxpayers have been convicted and imprisoned for filing fraudulent income tax returns. In a fourth, about one month ago, the first taxpayer was brought to trial on tax evasion charges.
- Effective personnel administration. Now in 7 countries.
- And so on, across the board.

Ultimate Objective

The ultimate objective of the Foreign Tax Assistance effort is to help create within the host countries a capability in tax administration which will enable them to go forward on their own, without U.S. or other outside technical assistance -- to build onto and to refine the basic changes that are being introduced today. The entire effort is pointed toward that objective -- to institutionalize an in-house capability in tax administration in the host country. Once the the basic groundwork for modernization is laid, direction set, and a certain momentum achieved, the concentration is placed on assisting the government to build a

corps of managers and technicians who can provide the motivation and leadership for continuing and enduring modernization. A good illustration is Chile, which has a well-developed program for training its tax officials. In fact, Chile's training capability has reached the point where it now has a limited on-going program for providing training in Santiago for tax officials of other Latin American countries -- a very useful contribution on the part of Chile to the Alliance for Progress.

Inter-American Center of Tax Administrators (CIAT)

In a large sense we reached a real milestone a few months ago in Panama in our efforts to promote the self-help objective of the Alliance for Progress. There, in May of this year, the Inter-American Center of Tax Administrators was organized. This is an organization of the leading national tax administrators in the Western Hemisphere.

The idea for the Center came to life during a seminar for Directors General of Taxation in Washington during May of last year. The seminar was sponsored jointly by the Internal Revenue Service and AID. It was the first time in the history of this Hemisphere that the Directors General of Revenue came together in one place to exchange experiences and points of view. The meeting was highly successful, not only in terms of professional development but also in terms of the personal associations that were created. Very few of the Directors General knew each other before that meeting.

By the time it was over they were on first-name terms with each other, and in the months that followed they not only corresponded with each other but also visited back and forth -- and they are still at it, along with Sheldon Cohen, our own Commissioner of Internal Revenue.

Before the 1966 meeting ended, the delegates elected a five-nation Planning Committee to undertake the developmental work connected with forming a permanent association. This included, among other things, the preparation of a draft charter and the planning for the second meeting of Directors General.

That meeting took place in Panama in May of this year. It was attended by representatives of 22 countries in the Western Hemisphere, including Mexico and Canada. Also, there were observers from outside the Hemisphere, and from the Organization of American States, the United Nations, the World Bank, the International Monetary Fund, and other world organizations. In all, over 100 participants and observers attended the Panama conference.

The charter was approved and the organization -- the Inter-American Center of Tax Administrators -- was created. Commissioner Cohen, incidentally, was elected as the first President. The former Director General of Revenue of Panama, Dr. Menalco Solis, was appointed as the first Executive Secretary, and is already deeply involved in operations.

The central aim or mission of the new Center is to provide a forum and a mechanism for the exchange of information and ideas and experiences in tax administration among member countries in this Hemisphere. Among other things, the Center will arrange for the exchanges between countries of technical missions -- for example, for a group of revenue officials from one country to visit and work with their counterparts in another. The Center will sponsor seminars on technical subjects. It will, of course, run the annual meeting of Directors General. It will conduct research in specialized areas of tax administration and, ultimately -- hopefully -- the Center one day will coordinate the major portion of technical assistance between member countries. The annual meetings for the next three years are to be in Argentina, Mexico and Brazil, in that order.

At this point, I might announce now -- for the first time publicly -- that the idea of a similar organization for tax administrators in the Far East and Southeast Asia is receiving active consideration today. And, looking farther down the road, we can visualize similar regional organizations making substantial contributions to more efficient and equitable tax administration in other parts of the world -- including Europe.

Efforts of this kind, then, plus purely national efforts in individual countries, should make it possible for developing countries to achieve an independent capability of their own to move ahead with a minimum of technical assistance from the United States, international organizations and others.

Management of the Program

The management of the Foreign Tax Assistance Program has called for a trail-blazing approach since the Service had no precedent for anything like it in terms of magnitude and character. For this purpose, we have developed IMPACT -- the letters standing for Integrated Management, Planning, Action, and Control Technique. The system serves four main purposes. First, it systematizes the planning of country programs by calling for a listing, by each country team, of every significant problem or weakness in tax administration which requires attention. This list, among other things, serves as a basis for the preparation of both a long-range plan with clearly stated objectives, and a practical annual work plan in each country. These are developed in close consultation with the host country tax officials. As a result, the final blueprint for action -- the annual work plan -- really represents not so much what the IRS team plans to do, but rather what the host government itself intends to accomplish for the year. For many tax agencies, this very process is the first experience in long- and intermediate-range planning, which in itself has considerable intrinsic value.

IMPACT also serves as a control and follow-up device for our team leaders and the Directors General of Revenue. Also under IMPACT, periodic reports on country programs and problems are prepared. These reports enable AID and the Foreign Tax Assistance

Staff in Washington to keep currently informed about country program operations and problems, and to identify potential problems and to take action before they become real ones.

Finally, IMPACT gives the Staff in Washington a world-wide view of tax administration developments which is useful in coordinating the overall program and in enabling the Staff to serve as a conduit for exchanges of information and experiences among the teams. Thus, when, say, Nicaragua developed an organization and system for streamlining the processing of returns and remittances, we distributed the plan to our other teams, many of which found it quite helpful to them and the governments they were serving. Another example is a system for withholding of income tax at the source: the experience in withholding which the IRS team had with the Government of Colombia was "packaged up", as it were, and sent to our team in Viet Nam for helping that government to install withholding there.

#### Review and Evaluation

Our original planning in IRS for the Foreign Tax Assistance Program took into account the future need for reviews and evaluations of the entire effort. Timing was important because we wanted to be certain that the appraisals would commence only after the Program had taken on clearly discernible form and substance, and was producing measurable results. That time, AID and IRS agreed, came last year.

Together, the two agencies organized a five-man Review and Evaluation Team of "outsiders", so to speak -- men who were familiar with taxation but who had no responsibility for the Foreign Tax Assistance Program. The group was headed by Dr. Sol Luis Descartes, formerly Secretary of Finance of Puerto Rico and now a private consultant on tax and economic affairs for the United Nations and Latin American governments. The other members consisted of Dr. Lowell Harriss, Professor of Public Finance at Columbia University; Dr. Charles Montrie, an economist with AID's Bureau of Latin American Affairs; Dr. Albert Buckberg, a member of the Staff of the Congressional Joint Committee on Internal Revenue Taxation; and Mr. Ernest Vaughn, retired Regional Commissioner of IRS's Central Region.

For two months the team examined, in depth, the AID/IRS tax programs in Peru and Panama and, for reference purposes, in less depth, the programs in Chile and Colombia. The central objective was to come up with recommendations on how we could do a better job. To this end, the Team was asked to examine critically every facet of the Program -- its basic mission, the IRS operations abroad and in the U.S., how it was organized, each major ingredient of the Program, the selection and training of the advisors, and the like. The Team came up with a number of very useful recommendations and, on balance, endorsed the existing approach and method of operation, and expressed gratification with the results.

### Challenges

So much, then, for the background of the Program, how it operates and some of the results. The gains under the Program in many instances appear to be impressive because our colleagues in the developing countries are starting for a low base, so to speak. To a considerable extent this is true, but we should keep clearly in mind, in judging what is happening in tax administration in developing countries, the over-riding fact that the people there are exerting themselves to produce change. In the process, some very basic problems must be overcome.

To begin with, there is the problem of attitude. In the tax agencies of most developing countries, there has been a lack of a positive approach to the enforcement of the tax laws, as well as the absence of efforts to inform the taxpaying public of its obligations and responsibilities under these laws. On the other side of the coin, in the taxpayer communities, there has been a tradition of disrespect and indifference toward tax laws and a corresponding lack of a sense of responsibility or obligation under these laws. This, of course, is true in some developed as well as developing countries. But today attitudes on both sides are beginning to change as a result of such measures as the training of host government tax officials are receiving in their countries and in the U.S., and through extensive taxpayer education and assistance programs.

Another serious handicap is the acute shortage of skilled managers and technicians. This, you might say, is a universal problem, but it is especially true in most developing countries where government salaries are low, and higher level education is extremely limited. Nevertheless, there are clear signs in most countries of progress in reducing this problem, especially with intensified training conducted in the host countries and in the U.S. A particularly heartening factor is the talent and dedication we find among most heads of tax agencies and members of their immediate staffs -- young men, for the most part, who are well educated, vigorous, bright, and determined to drive ahead, and who have assumed their responsibilities in many instances at great personal sacrifice.

Another basic problem is in the area of political support for vigorous tax administration. When it comes to appropriating funds for the support of the tax agency, the policy makers inevitably have to cope with competing demands and priorities for the limited amount of public funds which are available. For one thing, education, public health, and public works -- roads, bridges, communications systems -- require attention and financing, often at the expense of strengthening the tax agency. Then there is the matter of political support for the tax administrator on the hard decisions he has to make on individual tax cases. The degree of this support predictably

varies, and the adverse effect on tax administration when the support is lacking is obvious. The political, social, and economic strains and tensions within countries that inevitably are generated during the process of change that is going on are enormous, and the political leaders are in the best position to make judgments on the pace and the nature of change. But changes are being made -- many of them relatively revolutionary in nature and within the democratic process, and in the forefront of these changes are some dramatic improvements in tax administration for which there is an abundance of evidence.

These, then, in a highly generalized way, are some of the basic problems faced by most developing countries in strengthening their tax agencies. There are, of course, exceptions. However, the task is much greater, as you can see, than simply identifying areas of weakness and overcoming them. The identification process is simple. Doing something about them is another story. That takes imagination, talent, energy, and -- on our part as well as theirs -- understanding, patience and perseverance.

### Conclusion

I thought that as professional tax men you would be interested in a rundown of our work in assisting the tax agencies in developing countries, and in the Internal Revenue Service involvement there. Your stake in this program, however, goes beyond mere academic interest. Many of you personally, and your agencies, have already participated with us in this program by receiving visiting tax

officials, and in making some of your people available for overseas assignments with the joint AID/IRS Program. On behalf of Commissioner Cohen and AID Administrator Gaud, I want most sincerely to thank you for your support, and for the support which we are all sure you will continue to give this Program.

On a personal note, I want to say that this is certainly the most challenging program I have ever been engaged in. It has its frustrations and its disappointments. But the rewards in terms of professional and personal satisfaction more than compensate one for the heartaches.

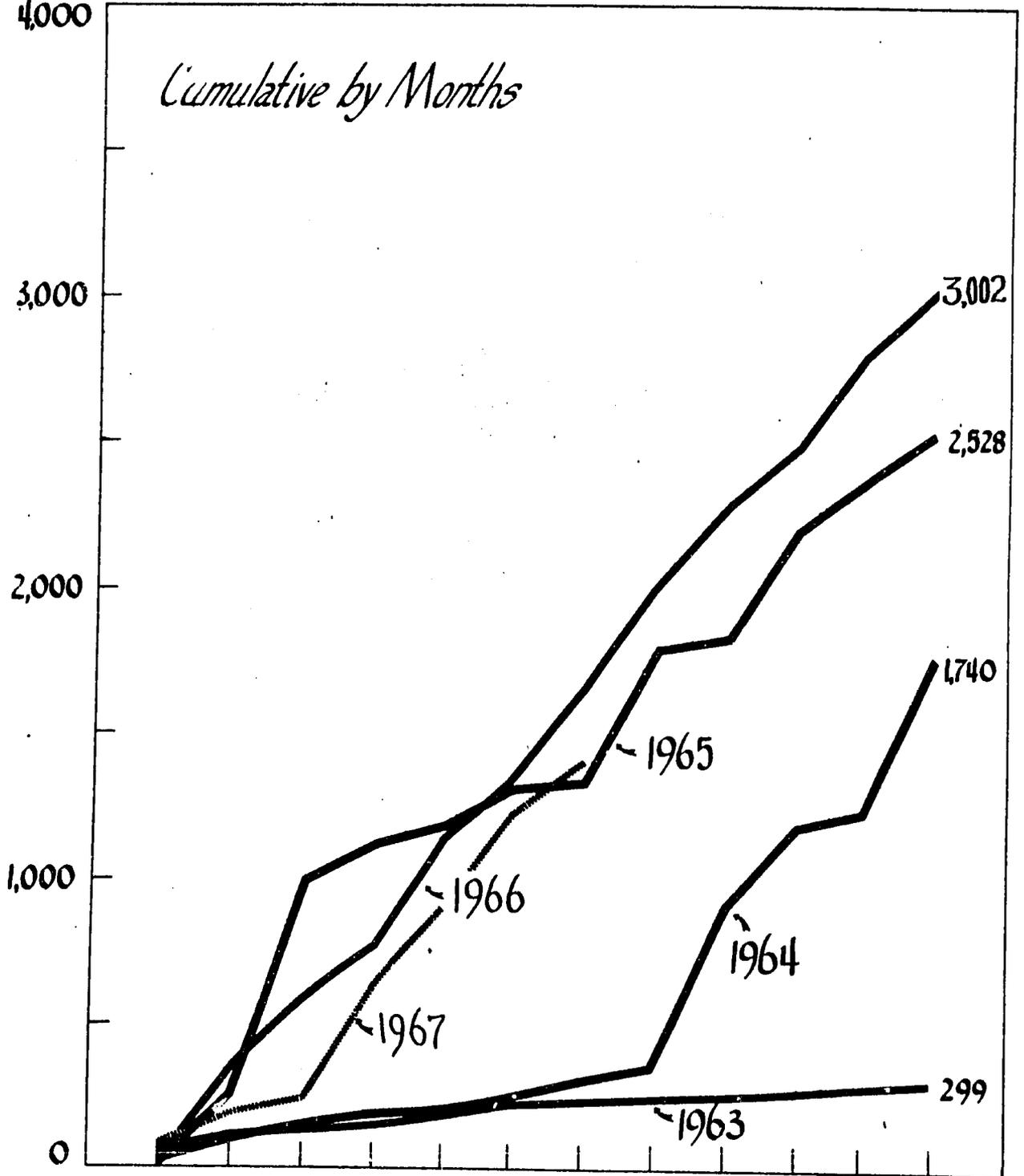
And, you can be sure, the whole effort -- at least in my judgment -- is more than worth the energy and the relatively small amount of resources that the United States is putting into it. Strengthened tax administration is a "must" for developing nations of the free world which today are driving toward an acceptable level of independence, stability, and security. An invigorated tax administration represents the essence of the self-help principle which is a cornerstone of the Alliance for Progress. It is the main and the enduring source of the revenues which the Latin American countries, and the other developing nations of the free world, will need for economic and sound development. The stakes, both for our friends and for ourselves, are extremely high. For that reason, I do not mind saying to you this afternoon that we are conducting this program with a sense of urgency -- there may not be a second chance to make good.

# Indicators of Progress

## PANAMA

### Additional Audit Assessments

Thousands of Balboas  
4,000

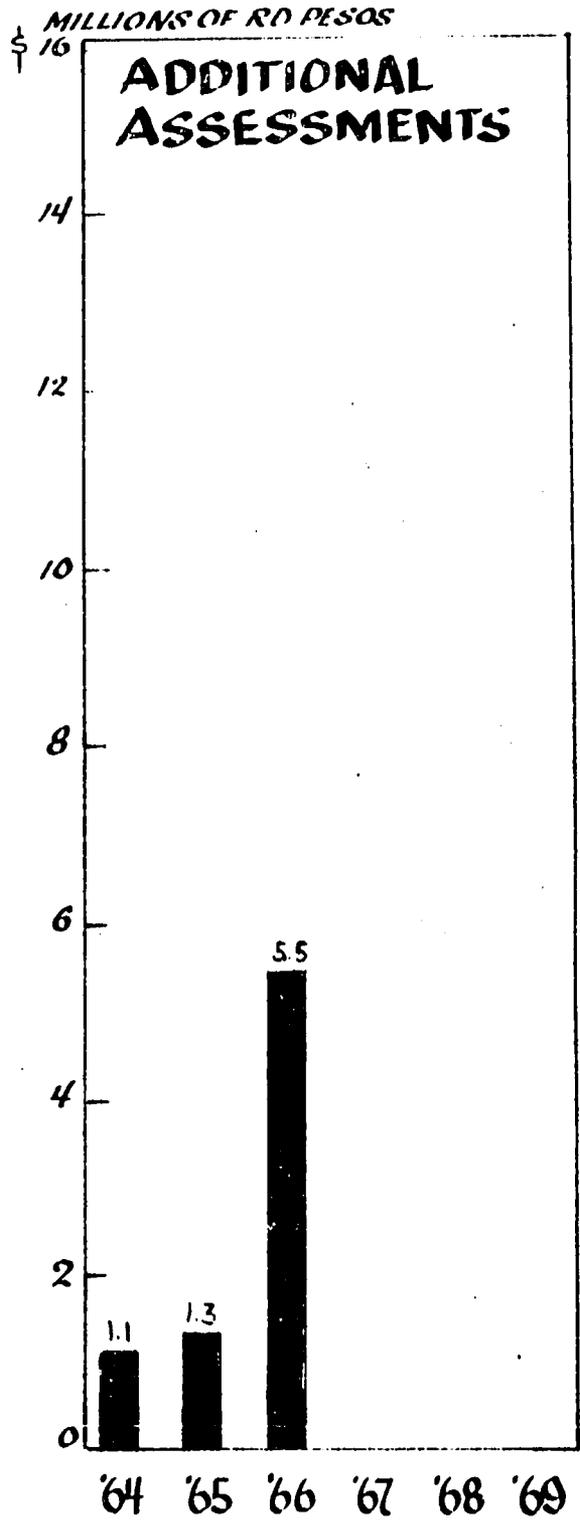
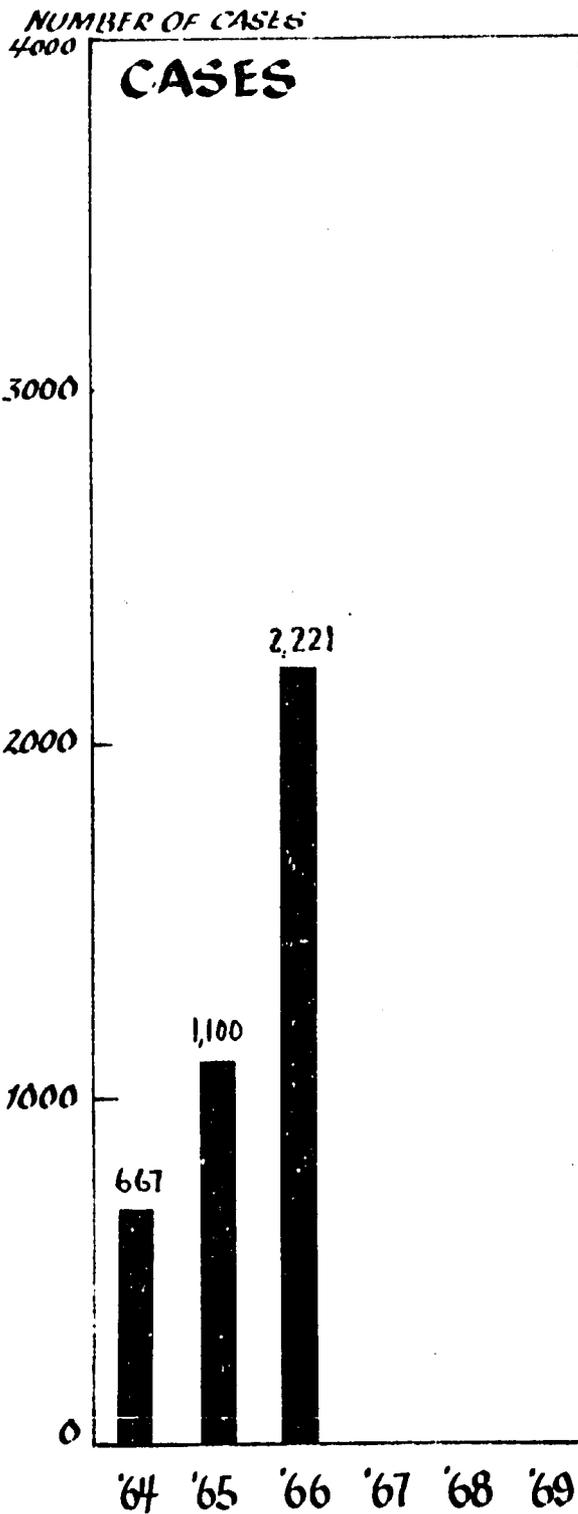


Note: B/1.00 = U.S. \$1.00

↑  
1965

30'

# Indicators of Progress DOMINICAN REPUBLIC - Audit Program Number of Returns Audited and Additional Assessments by Calendar Years

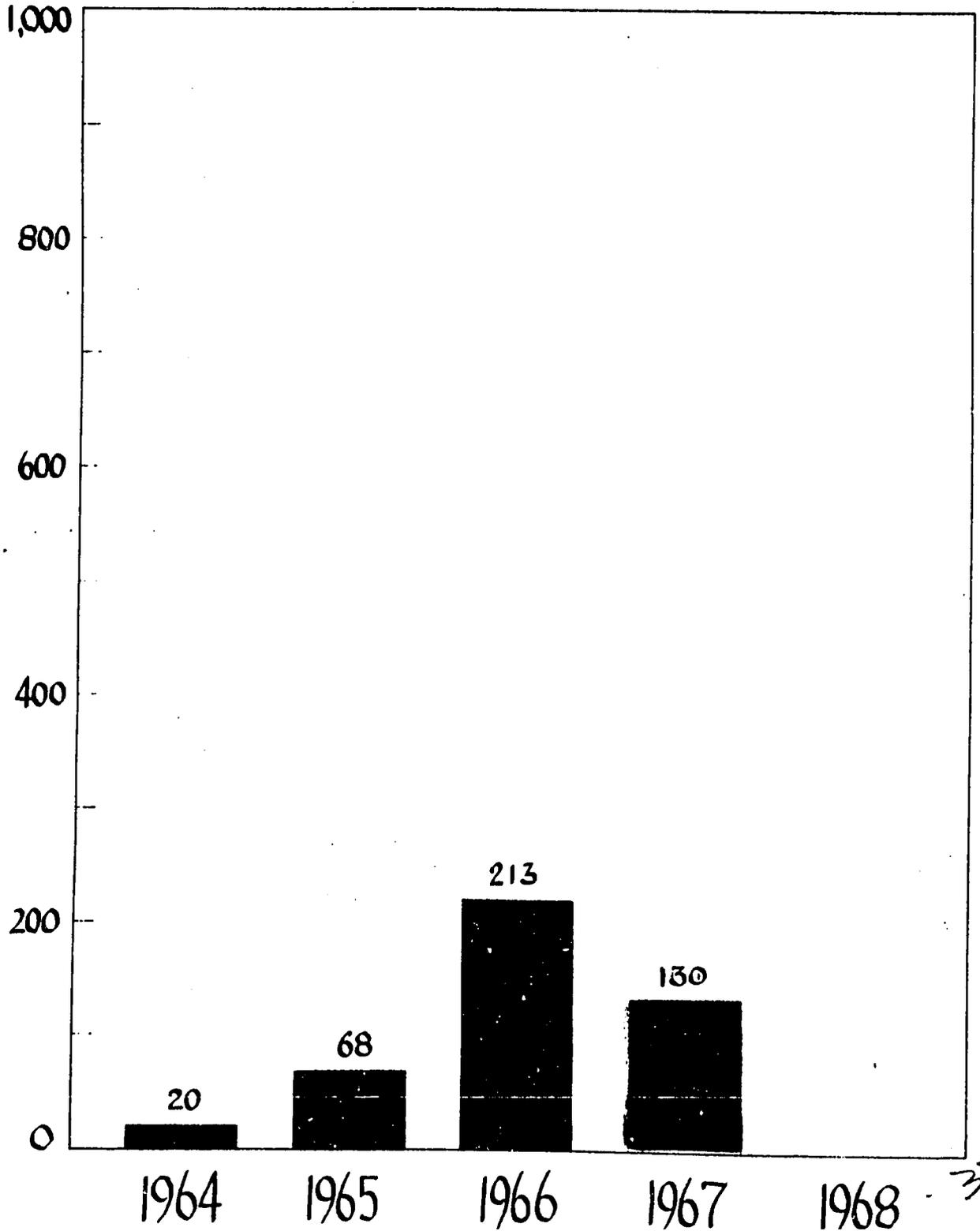


# Indicators of Progress

## DOMINICAN REPUBLIC-In-Service Training

### Number of Trainees by Calendar Years

Number

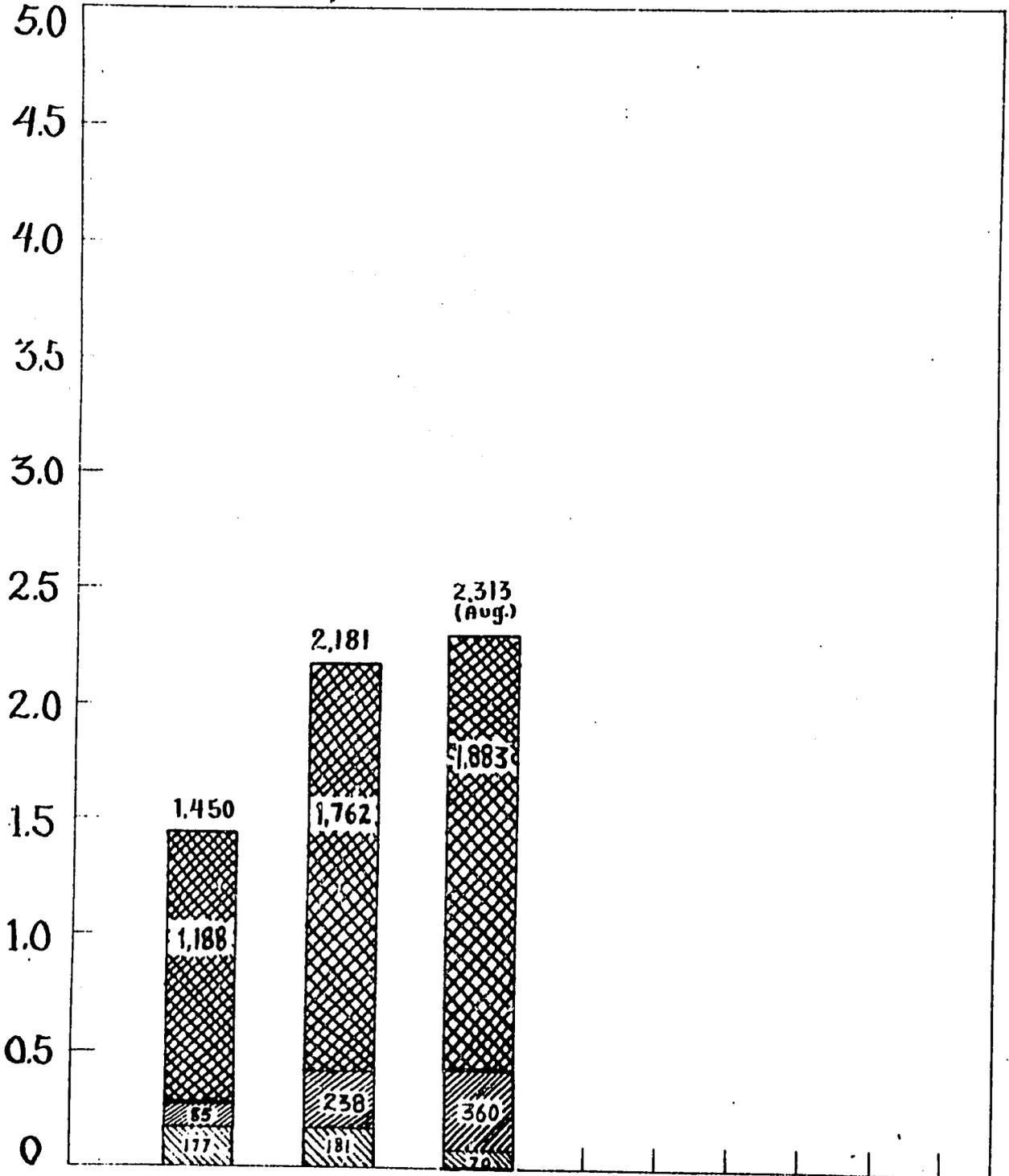


# Indicators of Progress

## HONDURAS - Additional Audit Assessments

### Chart I - All Taxes

Thousands of Lempiras



£1.00 = U.S.\$0.50

↑  
(AUG.)

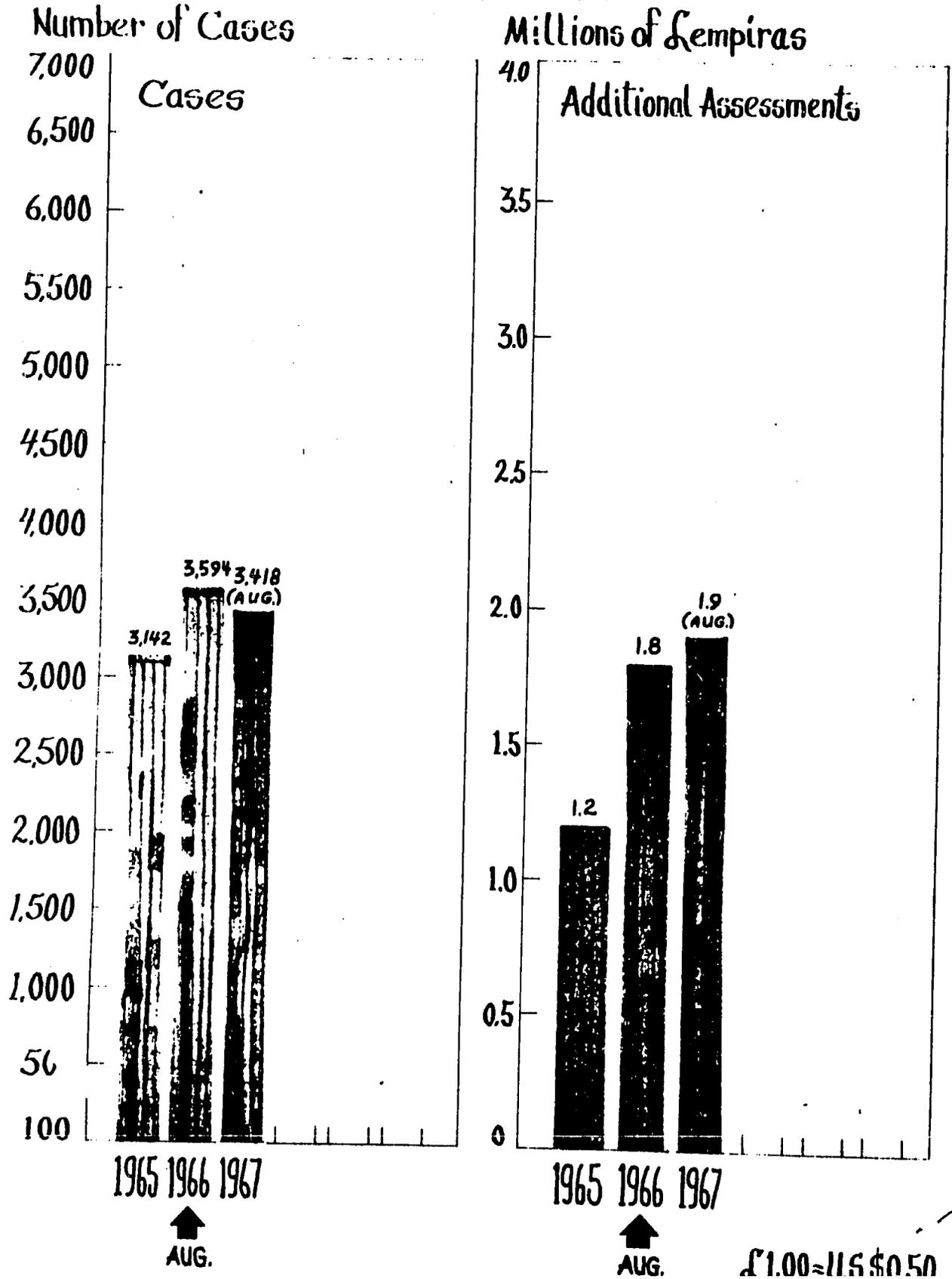
INCOME   
SALES   
INH. & GIFT 

37

# Indicators of Progress

## HONDURAS - Additional Audit Assessments

### Chart II - Income Tax Audit

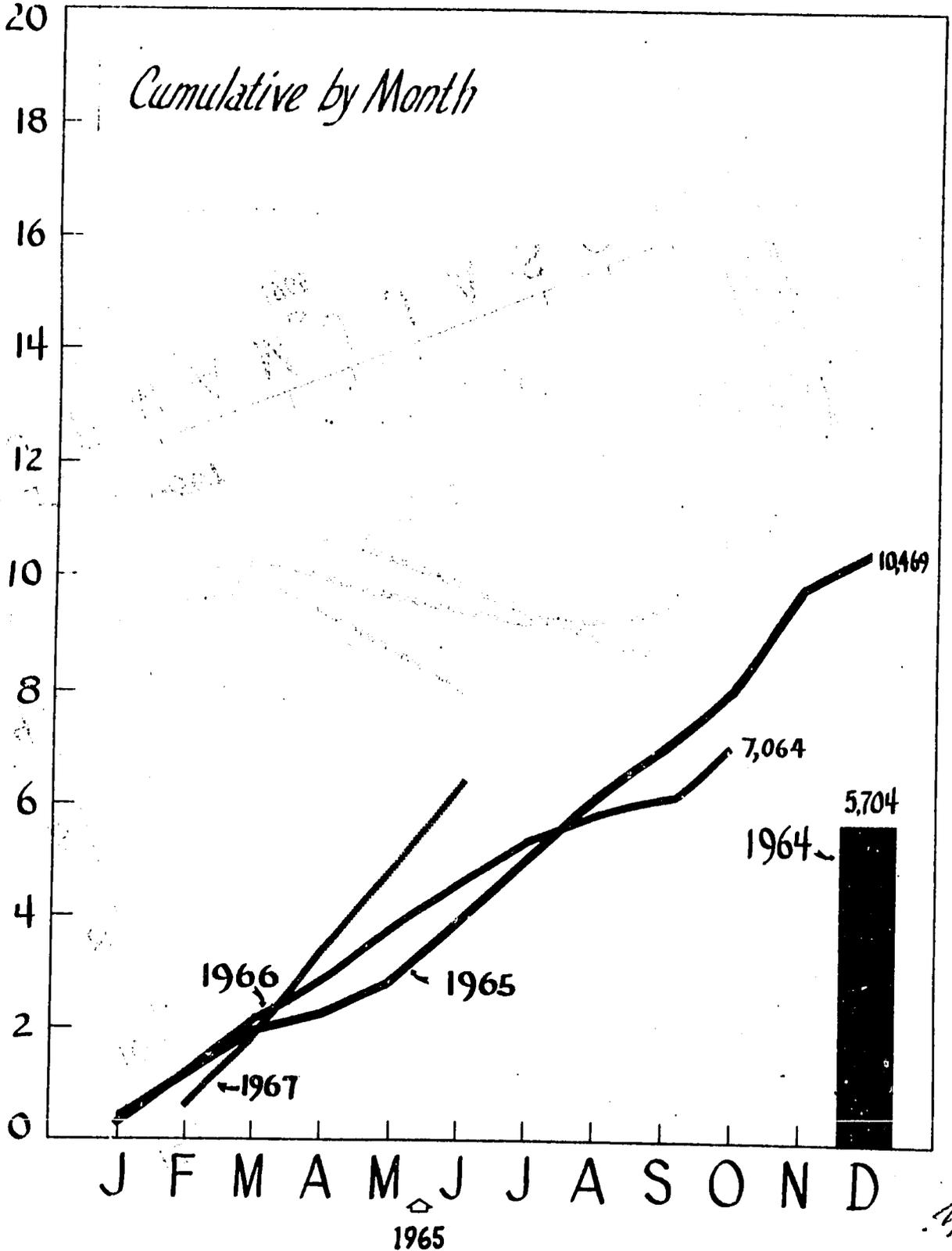


# Indicators of Progress

## GUATEMALA-Real Property Reappraisal Project

### Chart I-Number of Properties Reappraised

Thousands

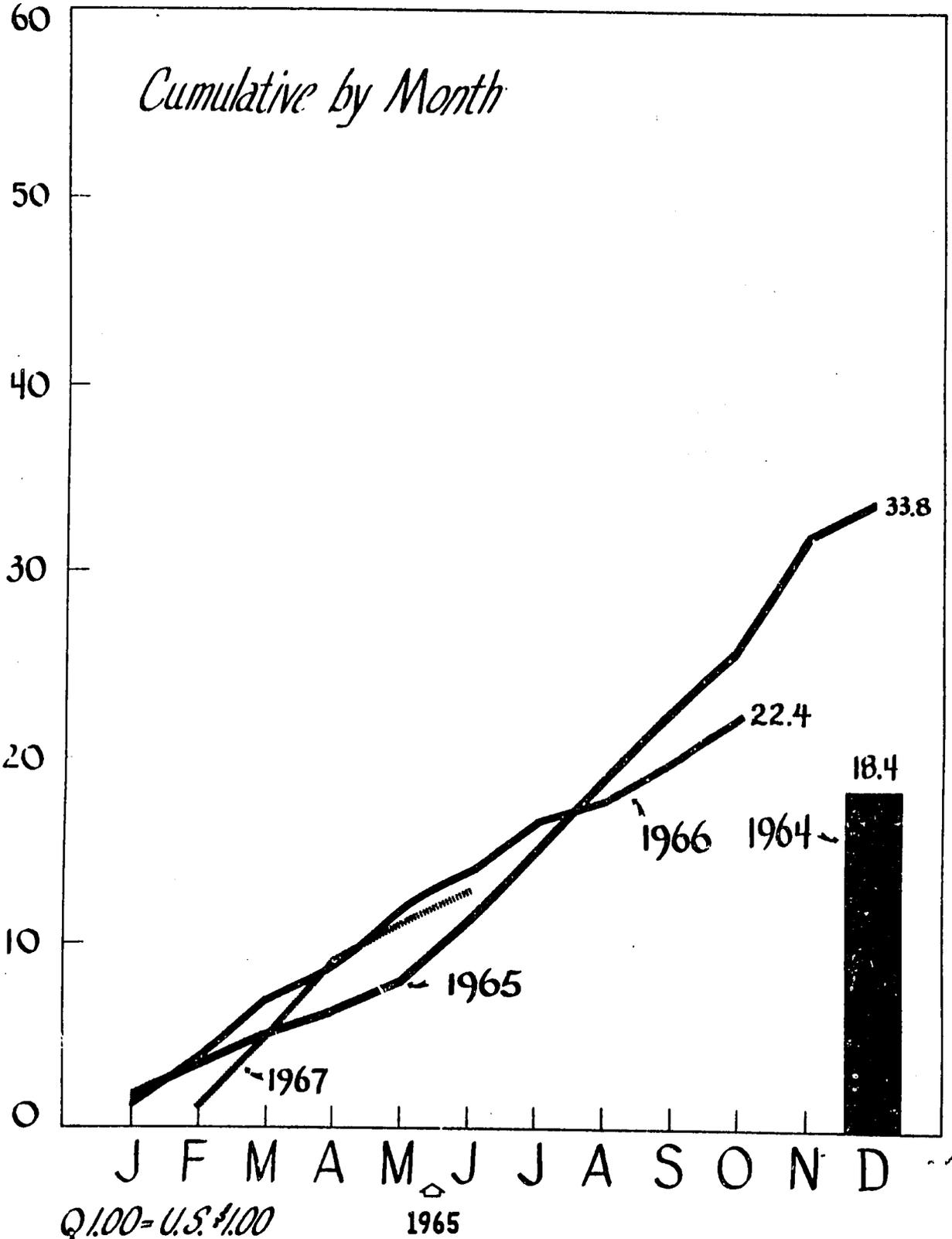


# Indicators of Progress

## GUATEMALA-Real Property Reappraisal Project

### Chart II-Adjustments in Appraised Value (Amount)

Millions of Quetzals

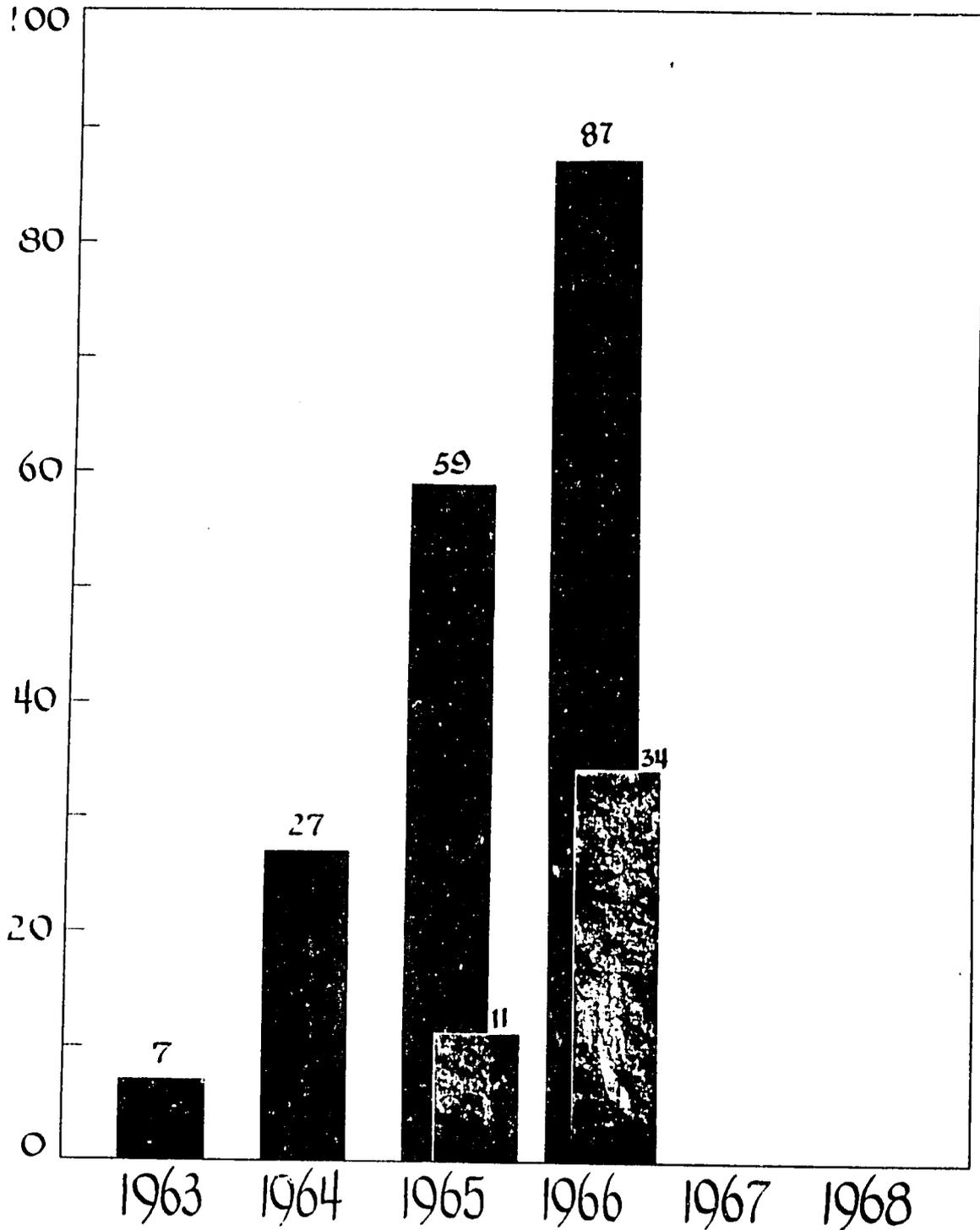


# Indicators of Progress

## ECUADOR

### Individual Income Tax Returns Received

Thousand of Returns



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