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Tax Administration and
Computerization of the
Central State Tax Board of
Uzbekistan

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Preface

This review and evaluation of the current tax administration system in Uzbekistan was conducted for the Central State Tax Board of Uzbekistan at the request of the U.S. Agency for International Development under Contract No. AEP-451-I-00-2058-00 from May 1993 through June 1993.

The study team comprised Mr. Phillip E. Coates and Mr. Albert Liser. Mr. Coates arrived in Tashkent, Uzbekistan, May 22, 1993, and departed June 19, 1993; Mr. Liser arrived June 1, 1993, and departed June 29, 1993. They interviewed more than 25 senior officials representing every organizational level in the Central Tax Board of Uzbekistan. Their findings and recommendations are presented in this draft final report.

The team would like to express its thanks and appreciation for the warm reception and cooperation received from every official and employee contacted during the study. These officials are listed in Appendix A. The team also gratefully acknowledges the support of Dr. Jane E. Bardon of USAID's NIS Task Force and of the U.S. Embassy in Tashkent.

Executive Summary

This report is a review and evaluation of the current tax administration system and the degree of automation in the Central State Tax Board (CSTB) of Uzbekistan. During the review, the study team visited the headquarters office in Tashkent; the City of Tashkent tax office; regional offices in the *oblasts* of Tashkent and Bukhara; and three district offices in Bukhara, Tashkent, and Chirchia.

The CSTB is growing at a rather alarming rate—from 4,542 inspectors in July 1991 to 8,100 inspectors in July 1993, an increase of more than 78 percent. Under the current system, in which inspectors maintain intricate handwritten records on every taxpayer and perform on-site audits of every taxpayer at least once each year, staffing will continue to grow at the rate of one additional inspector for every 20 to 30 new taxpayers added to the tax rolls. This report recommends an entirely new approach, including a shift to a self-assessment system, a selective audit program, increased compliance emphasis in the identification of nonfilers, a collection organization, a taxpayer service program, and an enhanced public information program.

Current CSTB computer applications are limited. Each of the 14 regional offices has four PCs that are used primarily to accumulate and monitor statistical and accounting reports of daily tax revenue. Some of the regional offices also use the PCs to create and maintain directories of enterprises and self-employed individuals in their subordinate district offices. The CSTB has developed a comprehensive computerization plan that includes four major taxes (value added taxes, excises, enterprise profits, and individual income tax). Implementation is planned over a 3-year period beginning in 1994. Recommendations to help ensure the successful implementation of the computerized system are included in this report.

Prioritizing recommendations was difficult because most are interrelated; however, the study team believes that development of a current accounts system and training are among CSTB's most critical needs today. In this connection, the team recommends establishing a full-scale technical assistance program consisting of three technical advisers with tax administration backgrounds in general tax administration, training, and computer systems. It further recommends that each of these advisers be assigned for one year, but that their accomplishments be monitored carefully and frequently to ensure that objectives are met.

1. Introduction

At the request of the CSTB of Uzbekistan, the U.S. Agency for International Development (USAID) contracted with Nathan Associates Inc. to send two tax administration specialists to Uzbekistan to address the following six focus areas identified by Dr. Jane E. Bardon of USAID NIS/TF/ER in the statement of work.

1. Evaluate the appropriateness of the tax administration system in terms of (a) the existing tax structure and (b) the tax structure recommended by other donors, if any.
2. Prioritize the CSTB's needs and provide resource and cost estimates.
3. Identify in descending order the oblasts that currently contribute at least 50 percent of the tax revenue (these are likely to be Tashkent, Samarkand, and Bukhara).
4. In the identified oblast offices, assess the administration of the tax system, including taxpayer identification, record keeping and collections, method of tax payment (withholding, point of sale), bottlenecks in tax revenue transfers from oblasts to the center.
5. In the identified oblast offices, assess degree of automation, shape of data files, level of training of the staff, and compliance measurement. Examine the possibility of linking oblast tax offices with the center via modem and of using automated taxpayer registration systems.
6. In the identified oblast offices, assess the audit system and demonstrate software that performs basic audits.

During its in-country assignments the study team met with the minister and several other senior officials and members of the staff of the CSTB. They also met with senior officials in three important regional offices, including the City of Tashkent Tax Office and oblast tax offices in Tashkent and Bukhara. The team visited the chief inspector and members of his staff in three district (*rayon*) offices in Tashkent, Bukhara, and Chirchia. Each of the rayon offices visited was a subordinate office to one of the oblast tax offices. The names and affiliations of all the individuals contacted are listed in Appendix A.

At the conclusion of the assignment, the team presented its findings to and discussed them with officials of the CSTB. These findings are presented in this report, which is organized into seven chapters. Following this introduction, Chapter 2 presents a short background of the current tax system and a detailed description of the organization of the system and the major taxes administered. The study team's recommendations follow each description. Chapter 3 identifies the needs of CSTB, suggesting the first and second priority needs, and Chapter 4 identifies the oblasts and presents the percentage of total tax revenue collected by each oblast office from January 1 through June 3, 1993. Chapter 5 examines the administration of the tax system in the oblast offices. The study team assessed the degree of automation of the CSTB, as well as the condition of data files and the level of staff training. Their observations are presented in Chapter 6. Chapter 7 reviews CSTB's audit system and the software performing basic audits in oblast offices.

2. Evaluation of Appropriateness of Tax Administrative System

BACKGROUND

In evaluating the appropriateness of the tax administration system in Uzbekistan in terms of the existing tax structure, it is important to present a brief background of the system and a description of the organization and the major taxes administered.

On August 12, 1991, the CSTB headed by a minister, was established by presidential decree to administer the taxes of Uzbekistan. Although the CSTB works closely with the Ministry of Finance it is an independent organization reporting directly to the Council of Ministers.

Because Uzbekistan has no local taxes or local tax administration, the CSTB has total responsibility for every facet of tax administration in the country. Although there are several different types of tax and custom duties, more than 75 percent of total revenue is derived from four major taxes; personal income tax (5.2 percent), enterprise profits tax (18.9 percent), value added tax (31.6 percent), and excise tax (20.9 percent). A brief synopsis of each of these major taxes follows.

Personal Income Tax

The personal (individual) income tax is broad-based and includes most sources of income in cash and in kind. Currently (1993) income is classified in one of six brackets with taxes ranging from 12 percent to 50 percent. For the large majority of taxpayers, the tax is collected through withholding at the enterprise level on a monthly basis. Although self-employed taxpayers (entrepreneurs) are subject to tax on their total net income, most satisfy their liability through the purchase of a certificate or patent, the cost of which is based on estimates for average profits for the type of business in which they are engaged.

Enterprise Profits Tax

The enterprise profits tax in Uzbekistan is unusual in that the tax base includes both enterprise profits and wage payments. A flat tax rate is applied to the base, although this rate varies depending on the priority given to specific sectors by the Council of Ministers. Currently the basic rate is 18 percent; however, the rates applicable to domestic firms range from 8 to 35 percent. Enterprises in the construction and medical industries and joint ventures with more than 30 percent foreign capital are taxed at the lowest rates; retail sales enterprises are taxed at mid-range rates; and the highest rates apply to banks, insurance companies, and wholesalers.

In practice, the enterprise profits tax generally applies to larger business entities that register with the state through the local tax offices. Smaller legal entities generally discharge their enterprise profits tax liability by purchasing a license for which they pay an annual fee. A decision on the legal status of the enterprise is made within 30 days after receipt of the application for registration. Once legal status has been granted, the enterprise is relatively free to operate as stated in its application for registration. Advanced estimated monthly payments are paid

on the 15th of each month by transferring funds from the enterprise's bank account to the bank account of the state. Quarterly financial statements must be filed with an inspector in the enterprise's local tax office.

Value Added Tax

The 1993 value added tax rate is 25 percent. The tax is levied on the sale of goods and services and is applied each time the goods and services are sold by enterprises, associations, organizations, and individuals engaged in the sale of goods and services. A credit is allowed for value added tax paid on inputs. An invoice credit method is used to assess the value added tax in the manufacturing sector. For most other sectors a presumptive method is used whereby taxable value added is determined as gross sales minus an allowance for presumed tax paid on inputs. A maximum retail margin of 20 percent is applied to estimated sales in most of the wholesale and retail sectors.

Average monthly value added taxes payable determine payment frequency. Larger enterprises are required to pay three times per month.

Excise Tax

Producers, with all forms of ownership, are liable for the payment of excise taxes on most alcoholic beverages, cigarettes, rugs, and gasoline. With the exception of machine-made rugs, all of the excises are levied on a specific basis (a certain number of rubles per unit of output) rather than on an ad valorem basis (a percentage of the value of the product).

The tax is due on the third day following each assessment period. The assessment period is 1 day for alcoholic beverages and 10 days for other goods.

ORGANIZATIONAL STRUCTURE

CSTB is a three-tiered organization currently staffed by about 8,100 inspectors and supervisory and managerial employees located throughout the country. A staffing chart showing authorized staffing is presented in Appendix B. At the first level is the CSTB headquarters office (CSTB) in Tashkent. Directly under the headquarters office are 14 regional offices (oblast offices) located in 12 oblasts, the autonomous Republic of Karakalpakstan, and the City of Tashkent. Subordinate to the oblast offices are 235 district (rayon) offices located throughout the country.

The CSTB and oblast offices do not normally have direct contact with taxpayers. Both organizations provide oversight, guidance, and assistance to the offices on the next level and generally monitor their operations to ensure that instructions are carried out. The oblast offices are also responsible for reviewing the quality of the inspectors' work, providing protection when necessary, and monitoring the overall integrity of the inspector force. The CSTB and oblast tax offices are generally organized by type of tax and the major taxpayer groups within each type. For example, the organizational unit responsible for enterprise profits tax has several subordinate units for different taxpayer groups, including state owned enterprises, privately owned enterprises, joint ventures, public organizations, and banks.

The 235 rayon offices are the front line of tax administration in Uzbekistan. Each inspector in these offices is responsible for an assigned group of enterprises. Their responsibility includes every type of tax for which the enterprise is liable. In addition to providing information and assistance to the enterprises, the inspectors receive from their assigned enterprises all tax

documents and bank payment records for each type of tax. They maintain files and intricate handwritten accounting records for each enterprise by type of tax. The inspectors visit each of their enterprises at least once each year to compare original documents and financial statements with documents and financial statements previously submitted by the enterprise. Rayon offices are organized similarly to headquarters and oblast offices. The inspectors are assigned to groups identified by types of tax or major groups within a type of tax. A major organizational unit in the rayon office is the forecasting and control group. This group is responsible for maintaining up-to-date records on all enterprises and reporting daily revenue to the regional office from information received from the banks.

Recommendations

- Although the current organization is reasonably effective, a major reorganization will be necessary to deal with future developments, including computerization and a rapidly growing taxpayer base. The current organizational structure, by type of tax and major class of taxpayers, must give way to functional specialization if the organization hopes to meet current and future demands. Some of the more important organizational components essential to a modern, computerized tax system include taxpayer service, public information, training, collection, delinquent returns, audit, investigations, appeals, returns processing, and systems development. It is recommended that departments for each of these activities be established at all three levels of the organization.
- Inspector staffing during the past year has increased more than 78 percent—from 4,542 in July 1992 to 8,100 today. Under the current system, in which each inspector is responsible for monitoring and controlling a group of enterprises, the staff will continue to grow as additional taxpayers are added to the tax rolls.

If the current approach to tax administration is not changed, the organization will continue to grow at alarming rates—one new inspector will be needed for approximately every 25 to 30 taxpayers added to the rolls. A completely new approach to tax administration, starting with computerized processing of tax returns, is needed. Coupled with the implementation of computerization, there will be the need for self assessment of tax by taxpayers, simplified tax forms and instructions, a taxpayer assistance program, a public information program, a training program, a tax collection organization, a selective audit program, a compliance program for the identification of nonfilers, and a program for the investigation of fraud and willful evasion.

TAXPAYER SERVICE

Tax administrators generally agree that a viable taxpayer education and assistance program enhances voluntary compliance, generates taxpayer confidence in the system, and improves the overall quality of documents and returns submitted.

The CSTB has had some experience in this area. Enterprise managers and accountants were invited to attend informational seminars when the VAT was introduced. Instructions and sample forms were distributed. However, with the massive changes created by the introduction of computerization, including a self-assessment system, new tax laws and regulations, new forms, and computer notices, establishment of an effective full-time taxpayer assistance program will be essential to assist taxpayers in meeting their tax obligations under the new system.

Recommendation

- We recommend establishing a taxpayer service organization at all three levels of the organization: CSTB, oblasts, and rayons. Development of the overall taxpayer assistance policy and the preparation of informational materials (e.g., instructions, guidelines, questions and answers, completed sample forms with explanations, and specialized publications) should be the responsibility of the CSTB. The oblast offices should monitor the execution of the program in their rayon offices to ensure that a high-quality assistance program is available to all taxpayers requesting assistance. Actual rendering of assistance through personal contact with taxpayers should take place at the rayon offices.

AUDIT PROGRAM

Each inspector in a rayon office is responsible for an assigned number of enterprises. They receive and check the documentation of all types of tax for which their enterprises are responsible. They provide information and general assistance to the enterprises and ensure that the required documentation is submitted on time. The number of enterprises assigned to each inspector varies according to the size and complexity of the enterprises and the level of experience of the inspector. According to the chief inspectors in the rayon offices visited, the size of each inspector's workload can vary from 20 to 40 enterprises.

In addition to controlling and monitoring their assigned enterprises, inspectors are required to continually make on-site visits to check and compare the documentation submitted to the inspector with the original records and documents retained by the enterprise. Inspectors also monitor their enterprises' compliance with the law during these visits. There are no written guidelines for the frequency or depth of these on-site reviews. In most cases, each enterprise was visited annually; however, in one oblast office the chief stated that his inspectors were required to visit their enterprises quarterly.

Although the chief inspector in one office indicated that the inspectors' workload was reassigned each year, the enterprises in most offices are assigned to the inspectors on a more or less permanent basis. Again, there are no written guidelines and the practice appears to depend on the discretion of each office.

Although the inspectors' on-site reviews of enterprise records and documentation result in a substantial amount of additional revenue, most of the adjustments, according to the chief inspectors, result from the failure of the enterprises to correctly interpret the law or to follow the instructions. As one official pointed out, the laws and instructions are so complex that they are often misunderstood by the enterprise accountants and bookkeepers. Between January 1, 1993, and May 1, 1993, inspectors made 11,529 on-site visits to legal entities. Of these visits, 5,500 resulted in the identification of some violation; however, only 3,324 (or 28.8 percent) resulted in the discovery of unreported income. During the same period 11,719 personal contacts were made with natural persons—of these contacts, 3,909 resulted in the discovery of some violation and only 357 cases of unreported income were discovered. In summary, only 3,681 (or 15.8 percent) of the 23,248 on-site visits made by inspectors during the first 4 months of 1993 resulted in the identification of unreported income. The inspectors' on-site visits are frequently referred to as audits; however, they are not tax audits as defined by most tax administrators. Normally, a tax audit consists of an examination of books and records and supporting evidence to determine whether the income reported is substantially correct and whether the deductions claimed are allowable under the law and can be substantiated. If the tax auditor suspects that the books and

records do not properly reflect the taxpayer's income, he or she must look beyond the books and records to check their reliability and may need to contact third parties doing business with the taxpayer. The tax auditor must also be alert to situations whereby a taxpayer's living standards or accumulation of wealth are not commensurate with the income reported. These are not the type of audits currently conducted by the inspectors during their on-site visits to enterprises. It appears that the objective of these audits is to determine whether the documents submitted to the inspectors in the rayon offices compare favorably with the originals retained by the enterprise. They also check for compliance with the law and determine whether the guidelines and instructions issued by the tax administration are followed.

Recommendations

- The annual on-site review or audit of every enterprise should be reconsidered in view of the fact that only about 28 percent of visits to legal entities and 3 percent of those to natural persons resulted in the discovery of unreported income. Scarce human resources could be saved, or diverted to more productive activities, through the development of an audit program in which only those enterprises that appear to warrant examination are audited annually. All other enterprises could be audited on a 2- or 3-year audit cycle. Once a self-assessment system for filing annual tax returns and computerized returns processing has been introduced, identification and selection of returns for audit should be made by the computer on the basis of preidentified criteria.
- The practice of assigning enterprises to an inspector on a more or less permanent basis should be reconsidered. Tax administrators generally agree that the same inspector should not make two consecutive audits of the same enterprise. The chances of overlooking nondeductible expenses or unreported income increase when the same inspector conducts consecutive audits. Rotating inspectors also reduces the chance of breaches of integrity.
- Guidelines for identifying and selecting returns for on-site audits and rotating inspector assignments should be written so that there can be no misunderstanding about the CSTB's policy on this matter.
- With the introduction of an audit program based on a 2- or 3-year audit cycle and the selection for audit of enterprises most likely to be understating their tax liability, a training program for inspectors in auditing and audit techniques will be necessary. Recommendations for training inspectors are presented under Training in this chapter.

PENALTY STRUCTURE

The schedule of penalties provided by law is equally applicable to all types of tax in Uzbekistan.

Failure to timely file returns or other required documentation or submitting incorrect information can result in a 10 percent penalty of the total tax. These penalties are imposed at the discretion of the inspector.

Failure to pay tax on time results in the imposition of a late payment penalty of 0.5 percent per day. There is no maximum limitation on this penalty.

Underreporting, commonly referred to as "hidden income," results in confiscation of the unreported income plus a 100 percent penalty for the first offense. If the taxpayer is caught for

the same offense a second time, the unreported income is confiscated and a 200 percent penalty is imposed.

The inspector also has the option of recommending penalties against the enterprise manager and its chief accountant (these are the parties who must sign the return or financial statements submitted). The first offense penalty ranges from one to five times the individual's minimum monthly salary. The second offense penalty ranges from five to seven times the individual's minimum monthly salary, and the penalty for the third offense can be as high as 50 times the minimum monthly salary or up to 2 years in prison, or both. These penalties must be approved by the chief administrator of the district office in which the examination is conducted.

The law does not make a distinction between willful evasion, negligence, and innocent error. The same penalties are invoked regardless of the circumstances of the understatement. Tax penalties can have an important impact on taxpayer compliance and on taxpayer confidence in the tax administration system. Severe, unrealistic, and excessively harsh penalties can generate animosity and antagonism on the part of taxpayers who genuinely want to comply with the tax laws. The penalty structure should be perceived as fair and designed to fit the offense for which it was intended. In this connection, distinctions must be made between taxpayers who willfully evade and defeat the payment of tax and those who are only negligent or make unintentional mistakes.

Recommendations

- The penalty for underreporting should distinguish between willful evasion, negligence, and unintentional mistakes. The more severe penalty should apply to deliberate evasion with lesser penalties for negligence and unintentional errors.
- Tax penalties are normally applied against the enterprise or taxpayer and not against its employees and managers. Consideration should be given to eliminating penalties against the enterprise manager and chief accountant.

INSPECTOR QUALIFICATIONS AND REMUNERATION

There are no prescribed educational or experience requirements for inspectors. More than one official stated that the CSTB could not recruit highly qualified accounting graduates at the starting salary it pays inspectors. The starting monthly salary of 27,500 rubles (about US\$25.00 at the current exchange rate of 1,100 rubles per dollar) is not competitive with comparable salaries paid to accounting graduates by other employers. As a result, most of the inspectors come to the CSTB with no knowledge or experience in accounting and auditing.

The inspectors' salaries are supplemented, however, from a local improvements and bonus fund established with tax deficiencies found by the inspectors during their on-site reviews or audits. The general budget is allocated 85 percent of these tax deficiencies. The remaining 15 percent is distributed to CSTB (20 percent), oblasts (35 percent) and rayons (45 percent). The distributions to the oblasts are based on the deficiencies discovered by their subordinate rayons. Rayons receive money on the basis of deficiencies actually discovered by that particular rayon office. There are no written guidelines for the distribution of the funds to individual inspectors. The chief inspector of the rayon office makes that decision. However, one chief inspector stated that he attempts to reward the inspectors on the basis of their individual productivity.

Obviously, the inspectors deserve more income than they currently receive from their salaries; however, the sharing of bonuses from tax deficiencies is a practice loaded with danger. First, the practice can undermine taxpayer confidence in the tax system. The system can also be abused by overzealous inspectors more concerned with their own financial reward than with evenhanded treatment of the taxpayers. The appeals procedure might be influenced for the same reasons because the officials responsible for considering taxpayer appeals also share in the bonus fund. The system is also unfair to inspectors of rayons with smaller tax bases. Inspectors in industrial or business districts, for example, will probably have more deficiencies to share than those in districts predominantly occupied by individuals or small businesses. Likewise, inspectors in rural areas will not benefit as much as those in urban areas.

Recommendation

- Reconsider the practice of using tax deficiencies for supplementing the salaries of inspectors. The risk factor is much too high in relation to the benefits gained. Establish standard pay scales for every inspector based on education and experience. Provide for annual increases based on performance. Begin a long-term program to increase salaries until comparability is reached with other employers.

CURRENT ADMINISTRATION OF MAJOR TAXES

A brief discussion and suggestions for improving the current administration of the four major taxes follows.

Enterprise Profits Tax

Enterprises (legal entities) are required to pay estimated taxes in advance on the 15th day of each month. Payment is made by requesting the bank to transfer funds from the enterprise bank account to the state bank account. A quarterly financial statement reflecting enterprise profits and financial condition is required to be filed with an inspector at the rayon office in which the enterprise is located. A form for this information is provided by the inspector.

When the financial statement is filed at the end of the year, the enterprise must pay any additional taxes due. If the enterprise has overpaid its tax, a written application for refund is directed to the chief administrator of the rayon office through the inspector responsible for the enterprise. If the application for the refund is approved and the order signed by the chief administrator and the representative of the Minister of Finance, located in the rayon office, it is forwarded to the bank which, in turn, transfers the funds from the state to the enterprise bank account.

Recommendation

- Although filing financial information every quarter and making advance payments every month is somewhat onerous for the enterprise, no changes are recommended at this time. Several important changes will be required, however, with the introduction of computer processing and a self-assessment system. Among other changes, the tax laws should be amended, and simplified tax returns and instructions should be developed and printed. It is recommended that, when these changes are made, the enterprise advanced tax payments be

made quarterly and that the financial documents (tax return) be submitted annually after the close of the tax year.

Individual Income Tax

Most individual income taxpayers do not file tax returns or other forms of financial information with the inspectors in the rayon offices. A vast majority—employees receiving salaries or wages—pay their tax through withholding by their employers. The employers transfer the tax withheld from their bank accounts to the state monthly. Inspectors review the employers' payroll records annually to ensure that the total tax withheld is properly transferred from the enterprise to the state and that each individual employee's tax has been properly computed at the appropriate rate for his total annual earnings. If the inspector's review identifies errors that result in additional tax or overpayments, an appropriate transfer is made between the state and the enterprise bank account. If errors are found in the amount of tax collected from an employee, adjustments are made between the employer and the employee.

Many self-employed individuals are not required to submit financial statements or make any accounting of their sales, expenses, or net income from self-employment. Instead, they purchase a patent for a nominal fee that fully satisfies their income tax liability for the year. The list of self-employment occupations that qualify for the purchase of a patent and the annual payment required is different in each oblast. The list is prepared by the Oblast Soviet Council with the assistance of the oblast tax officials. The total revenue received from patents is negligible. Self-employed individuals who are not on the list, and are therefore not eligible to purchase a patent, are required to purchase a certificate and to pay their tax quarterly and in advance. A short form showing the calculation of their income is required at the end of the year. The inspectors periodically check a special book that the taxpayers must maintain showing their income and expenses. Pages in this book are numbered and every page must be accounted for. It must always be available for the inspectors' review.

Several problems were identified in the administration of the individual income tax. Wage earners pay tax only on their wages. If other income is earned there is no procedure to ensure that income is combined with the salary or wages. As a result, the other income either escapes taxation or is taxed at a lower rate. The problems with individual entrepreneurs is more acute. Many pay a nominal fee for a patent that may or may not relate to the actual tax owed. Others, who are required to purchase a certificate, are not required to submit documentation reflecting their income, expenses, and financial condition. These taxpayers should eventually be educated about how to maintain accounting records of income and expenses and compute their tax on actual income rather than through the purchase of a certificate.

There is no way to measure compliance by self-employed individuals. Nevertheless every tax official asked about compliance by this group stated that it was very low. One official stated that the number of self-employed individuals not paying any tax probably exceeded the number that were complying with the law.

Recommendations

- Solutions to problems identified with the administration of the individual income tax are not simple. The obvious solution is to require annual tax returns or other forms of documentation from all individuals. This is not practical, however, and should not even be considered until a fully automated tax system is in place for processing of returns. In the

meantime, a presumptive minimum income tax for self-employed individuals should be considered. The presumptive tax should include a realistic license fee plus a flat-rate percentage on estimated turnover. The flat rate should be determined by type of business activity, size of premises, location, investment in business assets, and the like. The rates should not be determined at the discretion of the inspectors. They should be uniform and determined by the tax officials at either the oblast or CSTB levels.

- A compliance program designed to identify nonfilers should be developed and implemented in every rayon in the country. One of the most simple and effective means of identifying nonfilers is through a canvassing program in which taxpayers are asked to produce evidence that they are fulfilling their tax obligations.

Excise Taxes

The administration of the excise taxes appears to be working quite well. The tax is very narrow in scope and is levied on a specific basis (specific number of rubles per unit) rather than on an ad valorem basis (percentage of the value per unit).

A form, or declaration, provided by the tax department must be filed monthly with an inspector in the rayon in which the enterprise is located. Reports, with cumulative information for all the preceding months of the year, are required each quarter. A final return reflecting the excise tax collections for the entire year is required at the close of each year.

Inspectors review the documents when they are submitted and make periodic on-site visits, at least annually, to compare information submitted with records and documents retained by the enterprise.

Payments of excise taxes collected by the enterprises are due on the third day following each assessment period. The assessment period is one day for alcoholic products and 10 days for other taxable products. Payments are made through transfers from the enterprise bank account to the state.

Recommendations

- Although the administration of the excise taxes appears to be rather effective, the frequency with which documentation and payments are required is an administrative burden that could be reduced. Enterprises with large excise tax collections could continue to file monthly; however, those enterprises with small excise tax collections could easily file quarterly instead of monthly. Consideration should also be given to lengthening the assessment periods, at least for the small excise tax collectors.
- Consideration should be given to levying excise taxes on a percentage of the value of the product sold rather than on a specific amount per unit. Although this practice is a little more difficult for the enterprise to self assess it automatically ensures that revenue will keep pace with price increases. It also eliminates the need for periodic adjustments to specific taxes attached to various taxable products.

Value Added Tax

The average monthly value added tax payable determines the payment frequency. If the monthly tax payable is less than 100,000 rubles, payment is required quarterly; if it is between 100,000

and 300,000 rubles, payment is required monthly; and if it is more than 300,000 rubles, three payments a month are required. Payments are made through bank transfers from the enterprise bank account to the state.

A rather complicated value added tax return, provided by the tax department, must be filed monthly with an inspector in the rayon in which the enterprise is located. Returns with cumulative information for all the preceding months of the year are required each quarter. A final return, reflecting value added tax collections for the entire year, is required at the end of the year.

Inspectors review the documents when they are submitted and make periodic on-site visits, at least annually, to compare the information submitted with records and documents retained by the enterprise.

Recommendation

- Administration of the value added tax appears to work reasonably well. Consideration should be given, however, to simplifying the form, reducing the reporting requirements from monthly to quarterly, and reducing the number of payments required of large enterprises from three times monthly to only once each month.

TRAINING

The personnel or employee department in the CSTB is responsible for training. However, discussions with senior officials, at all levels of the organization, indicate no specific policy on the training of inspectors. No training materials or guidelines are available on the specific subjects to be covered and no time is spent on training activities. There is no trained cadre of instructors or benchmarks to determine the effectiveness of the training. Formal classroom training sessions are not provided.

The training program for inspectors is generally determined by the chief inspectors in the rayon office. Each of the chief inspectors interviewed about training indicated that new inspectors received on-the-job training by working with older, more experienced inspectors. The amount of time spent varied according to the background and experience of the new inspectors. Some were ready to work independently within 3 or 4 months but most required approximately one year before they were ready to work alone. Whether an inspector is properly trained and ready to work alone is also a local decision. However, in one of the offices visited, inspectors are required to pass oral exams before a panel selected by the chief inspector.

An effective training program is vital to any successful tax organization. It is even more important in a new and rapidly expanding organization, as is the case in Uzbekistan. Today, there are more than 8,000 inspectors, managers, and supervisors with less than 2 years of experience in a new tax organization. Technical training in accounting, auditing, and auditing techniques is urgently needed for all inspectors. Equally urgent is the need for management training for all of the supervisors and managers. With the introduction and implementation of computerization will come an immediate need for training systems analysts, managers, programmers, operators, data entry personnel, and others. Obviously, the CSTB is facing a massive training challenge. Training will take time and should be coordinated with the computerization implementation timetable. Unfortunately, implementation of a self-assessment tax system with a new law and new simplified forms and instructions cannot be piloted or phased in by oblast offices, as is the case with the computer system. When the self-assessment system is introduced it will have to become effective throughout the country at the same time. This simply means that all of the inspectors and their

supervisors will have to be trained in accounting, auditing, and audit techniques before the effective date for filing returns under the new system. This will entail a major training effort.

Recommendation

- A training organization at the CSTB level should be established immediately to plan for the massive training effort that will be required to meet the anticipated needs of the organization. The training officer selected should either have experience in managing a large training program or receive training in the duties and responsibilities of a training officer. Some of the more important actions the training officer and his staff will have to address include the following.
 - Establish a training center or training centers that are properly equipped and furnished for classroom training.
 - Identify and prioritize all training courses that will be needed.
 - Select and train a cadre of instructors in the technical material to be taught as well as instructor techniques.
 - Identify qualified instructors from enterprises, universities, or other government ministries who have backgrounds and experience in teaching supervisory and management courses or subjects related to computerization.
 - Select and train course developers. (The trained instructor cadre can also be used as course developers.)
 - Develop guidelines for measuring the effectiveness of the training and performance of the trainees.
 - Conduct pilot training programs to validate the effectiveness of the training materials and instructors.

INVESTIGATIONS

In each of the rayon offices there is at least one investigator (larger urban offices have two) whose responsibilities are to protect the inspectors and to investigate cases involving the willful concealment of large amounts of unreported income. Tax investigations are usually initiated by the investigator as a result of a referral from an inspector who discovers indications of hidden income during a regular on-site review of the enterprise's records. Most of the investigators have a law enforcement or legal background. Although the investigator cadre in each rayon office is small, investigators are routinely assigned to conduct investigations in other rayons, within the same oblast office, whenever the need arises.

Recommendation

- The investigators' position and the nature of their work is similar to criminal investigator duties in many tax offices. This is a good program and the CSTB is encouraged to continue and expand it as the workload increases. Some guidelines should be developed, however, to help inspectors identify potential fraud cases and refer them to investigators for further action.

PUBLIC INFORMATION PROGRAM

The CSTB has had a rather active public information program. Senior officials from the headquarters office and from the oblast tax offices have appeared on radio and television shows to talk about changes in tax laws and new tax laws. Newspapers have also been used to deliver CSTB's message to the public. Meetings have been arranged with various enterprises to discuss tax matters and problems in particular enterprise groups.

This is an important program that will become even more important as CSTB initiates all the changes leading to a computerized tax system. Public awareness of changes and the reasons for such changes will greatly enhance their acceptance and compliance. The public should also be continually made aware of the need for taxes and of the responsibility of every taxpayer to pay his or her fair share.

Recommendation

- The public information office should coordinate closely with the taxpayer assistance organization to ensure that its public information program continues to focus on current problems identified by taxpayer assistants at the working level in the rayons.

COLLECTION OF TAXES

CSTB does not have a collection function, nor does it have any delinquent tax accounts receivable section. All taxes are either paid to the bank or transferred from the enterprise bank account to the state bank account concurrently with the filing of any documentation required. It is a good system that minimizes the cost of collection as long as sufficient safeguards are in place to ensure that all taxes received by the banks are properly accounted for and are transferred timely to the state account. Some problems have occurred with such transfers; however, we were advised by several officials, at all three organizational levels, that legislation providing for sanctions against the offending banks has resolved most of the problems.

With the advent of computerization and the self-assessment system, a collection organization will be needed to deal with taxes that are not paid when returns are filed. Although taxpayers should be encouraged to pay all taxes due when filing their returns, this should not be a prerequisite for filing. In cases in which full payment is not received, the computer will automatically generate a "balance due" notice, including appropriate penalties and interest. A collection organization will be responsible for following up and collecting from taxpayers who do not respond to the computer-generated balance due notices. In many tax administrations, the collection organization is also responsible for following up on stop-filers¹ (identified by the computer) as well as nonfilers who are liable for returns but have never filed.

Recommendation

- CSTB should begin to organize a collection and delinquent returns organization. Although collection of delinquent tax is not a current problem, there appears to be an immediate need to deal with nonfilers, particularly self-employed individuals. The collection of

¹Stop-filers are those who have filed a tax return in the past but have not filed recently.

delinquent tax and follow-up on stop-filers will become an important part of the organization's duties with the implementation of computerization.

EMPLOYEE OPERATING MANUALS AND PROCEDURAL GUIDELINES

In the offices visited there were no written guidelines or instructions for inspectors to follow in reviewing taxpayers returns or financial statements or in making on-site visits to taxpayers. A check sheet was available but it did not provide detailed instructions or guidelines for the inspectors to follow. In most tax administrations the materials developed for training inspectors is subsequently used in developing audit technique manuals and procedural guidelines to assist inspectors in their daily work. These internal guidelines and manuals assist the inspectors in using their time more effectively, in using the best techniques for discovering unreported income or erroneous deductions, and in using alternative methods of computing income when books are inadequate or unreliable. Similar operating manuals and procedural guidelines are just as appropriate for other employees, including supervisors and managers.

Recommendation

- One of the first priorities for CSTB today is training. Implementation of a complete training program will require the development of extensive training materials for almost every technical, administrative, supervisory, and managerial position in the organization. These training materials should subsequently be used to develop technique handbooks, operating manuals, and procedural and administrative guidelines for all the functions. Priority should be given to the development of guidelines for inspectors and other employees in the rayons, who have direct contact with taxpayers.

SUMMARY STATEMENT ON CURRENT TAX ADMINISTRATION SYSTEM

The existing tax structure of the current tax administration system was fairly effective for the first 2 years of its existence primarily because the taxpayer base was small, and more than 70 percent of the total revenue was derived from three taxes alone, all of which were collected or paid by legal entities, which are preidentified by the tax authorities through a requirement that all legal entities in Uzbekistan be registered.

The current tax system has not worked quite as well in the administration of the individual income tax, particularly with respect to self-employed individuals. Individual wage earners pay their tax at the source through withholding by their employers. They are not required to file returns. In fact, there is no requirement that they even receive a statement from their employer showing their annual earnings or the amount of tax withheld. They are not identified as taxpayers on the tax rolls of the CSTB. If a wage earner happens to receive other income or works for more than one employer there is no easy way for them to report their combined earnings or compute their tax at a proper tax rate for their combined total income.

The problems with self-employed individuals are even more acute. Self-employed individuals satisfy their individual income tax obligations by purchasing patents or certificates, the cost of which may not bear any relationship to their actual income or tax liability. In each oblast office, a list of occupations is prepared. Individuals whose occupations are on the list may satisfy their tax liability by purchasing a patent for a one-time annual fee. These individuals are not required to account for any of their income at the end of the year. Individuals whose occupations do not

appear on the lists are required to purchase certificates and make advanced estimated tax payments on a quarterly basis. They are required to submit a year-end statement indicating their income; however, no detailed accounting is required.

The current system under which inspectors keep detailed records and monitor all tax activities of a group of entrepreneurs or individual taxpayers might work if the taxpayer base remained small, but the system is extremely labor-intensive and cannot survive as the taxpayer base continues to grow and expand. Moreover, the practice of making annual on-site visits or audits is a waste of valuable human resources that could be diverted to more productive compliance and enforcement activities.

CSTB is planning to implement a pilot computer program in 1994 for processing of returns. If the pilot is successful, computerization will become a reality throughout the country during the next 3 years. One of the prerequisites for a successful conversion to computerized returns processing is a major overhaul in the current tax administration system. Even if computerization were not being considered, some major changes to the system would be necessary to accommodate the growing taxpayer base and increased economic activity. The organizational structure should be changed from its current "type of tax" approach to a functional approach. The immediate development of training programs for every technical, administrative, supervisory, and managerial employee in the organization is vital. The public information organization must begin to educate taxpayers and move them toward a complete self-determination or self-assessment tax system. An effective compliance program must be developed and implemented in auditing, collection, and processing of delinquent returns (nonfilers and stop-filers).

An effective taxpayer assistance program, designed to reach every taxpayer in the country, must be undertaken. Internal operating manuals, procedural guidelines, and policy statements should be developed and made available to employees. Many other areas including employee remuneration and qualifications, penalty provisions, simplification of forms and instructions, and appeal procedures should be carefully studied and changed.

3. Prioritization of CSTB Needs With Resource and Cost Estimates

CSTB NEEDS

The study team's recommendations and prioritization of CSTB's needs are based on weaknesses and deficiencies identified in the current system and identification of the changes required to successfully implement the computerization plan.

The needs identified in this chapter are discussed throughout this report. It is difficult to determine which needs should have the highest priority because many are interrelated and, in most cases, are vital to the successful implementation of the computerization plan and the development of a modern and growing tax system. We do believe; however, that the needs described in Items 1 and 2 are of the highest priority.

1. Obviously, the development of a current accounts system using a tax master file in which all types of tax are recorded under a unique taxpayer identification number is a high priority because it is the cornerstone of a computerization system. The development and maintenance of this file also requires procedures to facilitate processing returns and related documents through the pipeline including receiving, sorting, numbering, data entry, and master file updating.
2. Equally as important as developing current accounts is system training. There are currently more than 8,000 inspectors, supervisors, and managers with less than 2 years experience and few with backgrounds in accounting, auditing, or management. Technical training in accounting, auditing, and audit techniques for inspectors is urgently needed. The need for managerial and supervisory training for managers and supervisors is equally as urgent. Every employee in every occupation in the computerization program will need training.
3. All three tiers of the CSTB organization should be reorganized on a functional basis.
4. The current practice of auditing or making on-site visits to every taxpayer every year must be replaced with a selective audit program designed to identify and audit those taxpayers that appear to need audits because of unreported income or questionable deductions.
5. A taxpayer service program should be established at all three levels of the organization to provide high-quality assistance to every taxpayer that requests help.
6. A collection and delinquent returns program should be established.
7. A compliance program designed to identify and seek out stop-filers and nonfilers should be developed.

8. The size of the investigator workforce should be increased as the workload increases under the new selective audit program.
9. A self-assessment system should be developed and implemented for all types of tax.
10. Tax returns, internal and external use forms, and instructions should be revised and simplified. An adequate supply should be available for distribution to all affected taxpayers.
11. The public information program should be enhanced to ensure that it reaches all interested taxpayers. Activities should be coordinated with the taxpayer service organization to ensure that current problems are addressed timely.
12. The current system of remuneration for inspectors should be reviewed and revised.
13. Qualification guidelines should be developed for inspectors.
14. Written guidelines, policy statements, and handbooks should be developed to assist employees.
15. A rating system for periodically measuring employees' job performance against performance standards should be developed.
16. A planning and research organization should be developed whose functions would include establishing and maintaining a work planning, control, and reporting system as well as a research unit responsible for measuring taxpayer compliance and noncompliance using statistical and scientific applications.
17. The required frequency for filing returns and other documents, the frequency for making payments, and the penalty structure in the current laws to ease the administrative burden placed on taxpayers as well as on CSTB should be reviewed and revised.

RESOURCE AND COST ESTIMATES

In the opinion of the study team, the best approach for dealing with CSTB's current needs is a technical assistance program with in-country experts providing day-to-day "hands-on" assistance and guidance in computerization, general tax administration, and training. The first priority is the assignment of a general tax administration expert, a training expert, and a computer systems specialist with a tax administration background.

The general tax administration expert should have broad experience in all facets of tax administration. This individual should be given overall responsibility for coordinating and managing the entire project. He should determine the need for additional short-term advisers, their areas of expertise, and the amount of time they should spend in Uzbekistan. He should also evaluate their progress and the level of cooperation received from the CSTB.

The training expert should have in-depth knowledge of a tax administration training organization and be completely familiar with the courses needed; the development of training materials and training courses; the selection and training of an instructor cadre and course developers; and the evaluation of the effectiveness of training classes, training materials, and instructors.

The computer systems specialist should, if possible, have a tax administration background. He should be well-versed in computer systems and be able to take the lead in the development of procedures required to process returns through all the pipeline processes.

The three resident experts identified previously should be assigned for a period not to exceed one year. We further recommend that benchmarks be established for measuring their accomplishments to ensure that the objectives of the program are met. Table 1 presents a computation of the estimated costs for the three advisers for one full year.

Table 1. Computation of Estimated Costs

Description of Resources or Services	Annual Cost
3 resident experts (tax administration, training, computers) at US\$250,000 each ^a	\$750,000
2 interpreters (for 3 experts) for one year at US\$250 per month per interpreter	6,000
1 secretary for 3 experts for one year	3,000
1 car and driver for 3 experts for one year (240 days at US\$15 per day)	3,750
Equipment (word processing equipment, fax machine, and copying machine)	12,000
Supplies	5,000
Total	\$779,750

Note: It is assumed that the host country (CSTB) will provide office space and local telephone service.

^aIncludes salary, transportation, shipment of personal effects, temporary quarters, permanent quarters and other incidentals). See Appendix H for further details of this entry.

4. Identification of Oblasts and Their Contributions to Total Revenue

The amount of revenue (in thousands of rubles) and the percentage of total revenue collected by each oblast from January 1, 1993 through June 3, 1993, are presented next in descending order.

<i>Oblast</i>	<i>Actual Revenue</i>	<i>Percentage of Total</i>
City of Tashkent	104,243.1	34.11
Tashkent	45,524.0	15.23
Fergana	45,103.2	14.76
Kashkadar'ya	22,281.3	7.29
Samarkand	16,305.9	5.34
Navoi	12,338.6	4.04
Andidjan	10,880.6	3.56
Bukhara	9,881.5	3.23
Namangan	8,937.0	2.92
Khorezm	8,854.5	2.90
Karakalpakstan	6,005.5	1.97
Surkhandar'ya	5,665.9	1.85
Syrdar'ya	4,624.7	1.51
Djizak	3,943.6	1.29
Total	305,589.4	100.0

During this period, the two highest revenue producers, Tashkent and City of Tashkent, collected about half (49.34 percent) of the total revenue. The percentage of the total revenue produced by these oblasts during 1992 was almost identical (49.3 percent) to the amount produced during the first 5 months of 1993.

5. Assessment of the Administration of the Tax Systems in the Oblast Offices

To assess the administration of the tax system in the oblast offices, the team visited the two largest regional offices (in the City of Tashkent and the Tashkent oblast) and a medium-sized office in the Bukhara oblast. Together, these three offices collected 52.47 percent of the total revenue during the first 5 months of 1993. A similar percentage was collected during the preceding calendar year. The team also visited three district (rayon) offices—one office in each of the three regions (oblasts) visited.

The tax administration system in each of the offices visited, regardless of size, was substantially the same. Each oblast office, for example, had a chief administrator and two or three deputy administrators who were responsible for supervising the various departments, which generally included

- Legal entities
- Natural persons
- Nonstate organizations
- Indirect taxes
- Forecast and analysis
- Investigation and security
- Control and audit
- Personnel
- Currency

As a general rule, the personnel in the oblast tax offices do not have direct contact with taxpayers. Their contact is generally limited to the employees in their subordinate rayons. Some responsibilities of the oblast offices include

- Providing rayon offices with current instructions and guidelines.
- Keeping rayon offices informed about new laws or changes in current laws and regulations.
- Keeping rayon offices informed about new policies or policy changes.
- Providing training for rayon office employees.
- Providing technical assistance and guidance to the rayon offices.
- Reviewing employees' work in the rayon offices.
- Evaluating overall performance of the rayon offices.
- Monitoring employee integrity in the rayon offices.

- Providing employee and physical protection.
- Compiling and reporting operational results to the headquarters office (CSTB), including daily revenue receipts.

All of the records on taxpayers maintained by the inspectors are handwritten. Each inspector is responsible for an assigned group of taxpayers. Handwritten records are maintained for every type of tax for which the taxpayer is liable. After they are reviewed and recorded by the inspectors, all required documentation and bank transfers are maintained in a taxpayer file in the rayon offices. The inspectors provide information and assistance to their taxpayers. They also make periodic on-site visits to their taxpayers to ensure that laws and procedures are properly followed and that the documentation submitted to the inspector agrees with the taxpayers' original records. The inspector is also responsible for follow-up if the required returns or documents are not filed on time.

All legal entities are required to register before commencing business. The tax office in the rayon office in which the taxpayer is located is notified when the application for registration is approved. This system ensures that every legal entity is known to the tax authorities at the time it starts to do business.

There is no similar system for identifying self-employed individual taxpayers. All self-employed individuals are to purchase either an annual patent or a certificate to show that they are fulfilling their income tax obligations; however, everyone interviewed agreed that compliance in this area was extremely low and that little was being done to identify the nonfilers and list them on the tax rolls.

As mentioned elsewhere in this report, there is no cashier function or collection organization in the tax department. All taxes must be paid through the banking system. There may be some isolated instances of delays in the transfer of funds from the banks to the state; however, most officials interviewed indicated that this was not a problem. Sanctions are available if banks fail to transfer their collections timely.

Overall, the tax administration system in the oblast offices is working. Nevertheless, it is quite labor-intensive, resulting in an ineffective use of human resources. The implementation of a self-assessment system, a computerized system for processing returns, and the adoption of a selective audit program will free resources for badly needed nonfiler compliance programs, taxpayer assistance programs, expanded investigations for taxpayers who willfully underreport their income, and stop-filer investigations.

6. Automation of the Central State Tax Board

OBSERVATIONS

Current CSTB and Oblast Office Computer Applications

Each of the 14 oblast offices has a minimum of four IBM personal computers (PC). Each PC has a configuration as follows: (1) 80286-type microprocessor, (2) 1 MB RAM, (3) 5.25" disk drive, (4) 40-MB hard-disk drive, (5) monochrome monitor, (6) keyboard, (7) modem, and (8) MS-DOS 6.0 operating system.

These PCs transmit and receive (via modem), accumulate, and maintain statistical and accounting reports of daily tax revenue reported from affiliated rayon offices. These reports (N-1&2) contain daily cumulative data that reflect projected and actual revenue received, by type of tax within each oblast. Statistical data includes the number of legal entities (enterprises) and self-employed individuals for each oblast. Some oblast offices also use their PCs to create and maintain directories of enterprises and self-employed taxpayers in their rayons.

Current Rayon Office Computer Applications

Fewer than one-half of the 235 rayon offices have PCs, and no rayon office has more than one. The majority of rayon offices with PCs are located in urban areas such as Tashkent, Bukhara, Samarkand, Navoi, and Ferghana, where most if not all rayon offices have PCs. Like the PCs in oblast offices, those in rayon offices are used for reports. Neither rayon nor oblast offices employ personnel knowledgeable in developing software for use on PCs. Furthermore, rayon offices without PCs must accumulate and prepare their daily report data manually and forward it, by telephone, to their affiliated oblast office to be entered into a report.

Computer Systems Analyst-Programmers

There are currently five trained computer systems analyst-programmers, all of whom are at the Central State Tax Board. These experienced programmers were hired early this year. Unfortunately they have not had the opportunity to develop any part of an automated tax system because this application is new to this government. However, included in the CSTB's computerization proposal submitted to the Council of Ministers is a request to provide for a staff of 16 analyst-programmers. The additional staffing is expected to comprise newly hired, trained programmers. The CSTB also requested the establishment of five regional service centers to be used, in part, for future training for the department, including training analysts and programmers for computerization.

Enterprise Taxpayers and Self-Employed Individuals

Under the current taxation system, compliance of enterprise taxpayers (legal entities) and self-employed individuals, many of whom do not pay taxes or report all income, presents a problem.

The inspector is required to examine and audit each assigned taxpayer at least once a year, which does not allow him or her sufficient time to identify noncompliant taxpayers. The inspector is busy with compliant taxpayers and has fewer opportunities to collect additional revenue. The failure of some taxpayers to file returns; to accurately and fully report all income, allowances, deductions and net profit; and to timely pay taxes due is a universal problem. However, many countries have made substantial progress in increasing taxpayer compliance by applying several techniques, including computer technology. Presented below are a few of these techniques.

Changing Attitudes

Tax Department managers and employees often view taxpayers as the "enemy" and treat them accordingly. A more appropriate attitude should be that the taxpayers may need the Tax Department's help and that when taxpayers do not comply, it is because they do not understand the law or the forms, because they received inadequate or erroneous advice, or because they received an inadequate or no explanation of previous errors or violations.

In contrast, taxpayers and their representatives (tax lawyers, agents, and accountants) view the Tax Department as their "enemy" and give them only minimum cooperation.

It is essential that the Tax Department try to change employees' attitudes as well as the attitudes of the taxpayers, tax practitioners, and business community.

Cultivating Good Relations with Business Taxpayers

The proposed reorganization includes a Taxpayer Information Service. Officials in this section should meet frequently with business organizations, such as chambers of commerce and trade associations, and accountants and tax practitioners to encourage their cooperation by keeping them informed of new tax law changes or requirements. Draft tax forms should be presented to them, and they should be encouraged to suggest modifications, clarifications, and changes to the forms and instructions. Their complaints and comments should be carefully considered and acted on promptly, whenever possible.

The Taxpayer Information Service should conduct tax institutes (usually on Saturdays or evenings) to provide training and information on the preparation of tax returns and to discuss other tax-related matters with practitioners and interested taxpayers. It should also offer to provide speakers on tax matters to business or civic groups.

In many countries the Tax Department provides course material and trains teachers to prepare tax returns and taxes in general, and a course on taxes is included in the general curriculum of the school system. The students generally enjoy this subject, are often able to assist their parents, and are better able to comply with the tax laws and tax return requirements when they enter the labor market or start a business.

Another productive technique is a periodic newsletter for tax practitioners and business groups. An informal and friendly newsletter is a good way to keep the business community informed of new Tax Department programs, the results of surveys conducted by the department, telephone numbers where they will receive prompt service, and other tax-related matters.

Helpful Documents for Small Business Taxpayers

The department should consider preparing several documents that could help to get a new business started in a positive compliance direction and be useful for all business taxpayers. These documents have been helpful in training Tax Department employees.

A publication titled "Taxpayers Starting a Business" could be delivered by a Tax Department representative or mailed to each new business taxpayer. It would provide them with basic information about their tax responsibilities, including how to obtain a tax identification number and how to use it and the types of taxes they are likely to owe. The publication could include some information about sales, excise, customs, and other taxes. However, the emphasis should be on record keeping, accounting methods, and the bookkeeping system. The publication should contain completed samples of essential records. These include a daily summary of cash receipts, monthly summary of cash receipts, employee wage withholding, and a profit-and-loss statement.

Another helpful publication would be a "Guide for Business Taxpayers," which would explain the tax laws in easy-to-understand language and would be kept up-to-date by new pages to be inserted into the guide as the law changes. Here, too, updated completed sample forms and illustrations should be provided. Penalties and interest provisions of the tax law should be discussed, as well as the appeal process and other taxpayer obligations and rights.

Oblast Office Communication with the Central State Tax Board

All oblast offices are currently capable of communicating with the CSTB through modem, and that system will be continued and expanded under the proposed computerized system.

Compatibility between the Automated Registration System (ARS) and the new computerized systems is planned. Both the German Agency for Technical Cooperation (GTZ) and a local firm, both of which are contenders for the contract to supply the ARS, stated that their system would be compatible with that of the CSTB. The local contractor, who has been contracted by CSTB for other work, has developed a prototype of software capable of controlling, reporting, and reconciling all tax collections remitted to the Central State Bank and subsequently transferred to the CSTB account.

RECOMMENDATIONS

- Equip all tax offices (the CSTB, oblasts, and rayons) with compatible computer configurations and with capacities commensurate with proposed work activities. We believe that various proposals to completely automate the CSTB's Tax Returns Processing System and other tax administration functions, will entail replacing the current computer configuration to accommodate such automation.

We have been advised that the CSTB has formally submitted a plan to the Council of Ministers to computerize the CSTB. This plan was developed with limited cooperation from the International Monetary Fund Mission on Tax Policy and Tax Administration and includes a recommendation for computer configurations, along with estimated cost. We have reviewed this recommendation and believe that it is within the parameters of the configuration necessary to take the CSTB well into the 21st century. (See Appendix C.)

The data entry function should be at the rayon level instead of at the oblast level. Inasmuch as this recommendation would result in an increase in the number and cost of computer configurations previously estimated, we believe that realigning and consolidating

selected rayon offices would substantially reduce the overall cost. Some significant advantages of the rayon-based system follow.

- Data entry errors would be corrected more quickly.
 - Documents would be batched, numbered, and filed within the respective rayon office, avoiding the need to forward them to and from oblast offices and reducing the chances of losing them.
 - Any processing or data entry problems would be limited to the respective rayon office instead of the oblast office.
 - Oblast offices would not need to be concerned with processing paper documents and would be able to concentrate on processing the data from diskettes for master file updating.
- There is no need for additional training of computer programmers currently employed by CSTB, except for training in the new computer configuration. However, computer systems analysts will need training in systems design for tax administration.
 - Contract a long-term technical adviser from 8 to 12 months. He or she should be knowledgeable in tax administration system design; handbook preparation; development of operational and management controls; and linkage of remote computers between central, regional, and local tax offices via modem. The adviser should be able to emphasize the need for a cooperative attitude between all functions within the tax department that are affected by the computerized system. In developing the system to automate processing of tax returns and related documents from input to master file updating, the adviser will be simultaneously working with CSTB's analyst in its development, thereby providing some on-the-job training.
 - Initiate an enterprise/self-employed taxpayers compliance program (CSTB), which would include visits and distribution of information booklets to new small businesses and frequent meetings with tax return preparers and business representatives to keep them informed about the board's programs and tax forms changes and to seek their advice on tax-related matters. This will require a coordinated effort between all operational units of the CSTB.
 - Develop a current accounts system that includes the computerization of tax return processing. This system would also require the establishment of a tax master file for each taxpayer. The taxpayer's liabilities and payments would be centralized under a unique tax identification number. Under this system, the master file would become an accumulation of tax returns with related data, facilitating assessments, billings, accounting, data retrieval, research, and many other capabilities. The following section provides some insight into the actions required for this master file development, including major components and concepts of tax master file processing.

CURRENT ACCOUNT SYSTEM AND TAX MASTER FILE

A current account system for computerized tax returns processing requires the establishment of a file, such as a tax master file, that contains all of the taxpayer's liabilities under a unique identification number. Debit, credit, and miscellaneous status transactions for all taxes and tax

years are posted under this number. Identifying the taxpayer's type of tax and tax period in independent modules under the same account number enables the system to accumulate balances from all modules and calculate the taxpayer's current account status. It may be necessary to segment the master file in order to accommodate the variable number of transactions that will be posted to each tax account.

In developing a computerized tax master file system, many segments must be provided for in order to achieve a uniform sequence of events for "pipeline processing." Most of the major actions required for this development are outlined below.

- Income tax returns should be designed for ease of taxpayer compliance and data entry processing. If possible, all data needed for the computation of tax should be located in a prominent position on the first or last page of the return. The total for subsections accumulated to determine net taxable income may require special validation to substantiate the claim. One or more of the subtotals may be required for input to the master file to support selected master file processing, audit function, or statistical reporting. To make completing a tax return easier for the majority of taxpayers, two types should be printed: a short form for those who are only wage earners and a long form for all who have any income other than wages. The short form could be no more than one or two pages. Printing would also be more economical.
- Instructions must be developed for manual preparation of tax returns and related documents. These instructions should provide for coding selected elements on the return, identifying and securing missing elements that are mandatory for computer input, editing illegible data to ensure accuracy of data input, identifying and coding returns that require more in-depth review by audit personnel, and initiating all correspondence actions when necessary.
- As part of mass processing in an automated system, various forms and control mechanisms are necessary in order to process data systematically and in a manner that provides effective throughput. Some internal use forms must be designed to facilitate this processing. These forms must be designed to input data to the master file to maintain integrity of the file and the input of nonreturn data to keep taxpayers' accounts up to date.
- Specifications for programming requirements need to be developed to validate and perform math verification of tax returns before they are posted to the master file. Such specifications include checks that will reject or specially code returns that fail specific validity checks. They should reject returns that contain errors that prevent them from being processed and code returns that have mathematical errors, unallowable claims for credit or statutory allowances, and returns that meet specific audit review criteria.
- Additional programming specifications must be developed to post different types of transactions, update account balances, and analyze the accounts for specific outputs. These specifications are the key instructions for maintaining the master file because they are designed to accumulate in each taxpayer's account all data pertaining to the respective taxes for which the taxpayer is liable, thus providing for a current account system. The program must analyze the account after all posting during the update cycle to determine what, if any, outputs should be generated. Examples of outputs include taxpayer notices, registers, special listings, controls, and various accounting and operating reports.

- To help modernize and upgrade the CSTB's automated system, certain of Uzbekistan's tax regulations must be revised, particularly to include sections that provide for self-assessment for all income-related tax returns.
- To provide the audit function with the capability to take advantage of the computerized returns processing system, the CSTB computer systems development department must coordinate with audit management to identify specific information on the tax return that meets audit criteria requiring special audit review before making the initial assessment. Some criteria may be determined by computer analysis and some will have to be identified and coded during the manual processing in the coding and editing function.
- Obviously, it is not practical or efficient to record all data from the tax return into the master file. Therefore, decisions must be made to select from tax returns only data pertaining to tax liability, certain credits, and items absolutely needed and requested for the audit function's use, to enable management to extract statistical, operational, and management reports. As part of master file processing, procedures should provide for automatically generating some reports and controls.
- Many codes are required in the development and operation of a computerized master file system in order to facilitate efficient and accurate computer processing. A system of codes must be developed to reduce words and lengthy statements to numbers and alpha codes. These codes must be documented in a code book distributed to all personnel and computer programmers who are required to know how and when codes are used—the system would be completely dependent on the coding system. For example, posting some transactions may create the need to perform additional actions. Therefore it will be necessary to establish a series of transactions and status codes to enable the master-file updating program to identify the action to be taken. Such action may include analyzing the specific tax module to generate a receipt, installment notice, assessment notice, or merely update the current account without any further action.
- In addition to preparing written instructions for all of these activities, a series of training sessions should be provided for selected members of other departmental units that are affected by the system of computerization, such as the computer, collections, and audit divisions. This training is needed to familiarize the staff with what is required and the extent of the scrutiny that tax returns and related documents must undergo before they are entered into the master file. A more in-depth training program must be given to staff members who will actually be assigned to perform the returns processing function.
- Tax returns and files are the most valuable products of the CSTB. They should be carefully controlled and safeguarded and should be easily retrievable when needed. The best way to manage tax returns and related documents is to create a central file unit (CFU), introduce the document locator number (DLN) system, and organize a staff to establish control of the batches of tax returns. A room or space with open shelving will be needed to store the batches of returns in DLN sequence. Only documents with the same form number should be batched together. Different colors could be used for batch folders to designate their contents (to avoid errors in refileing returns). In some countries, mobile files allow compact storage.

The central files room should be self-contained and accessible to only the authorized employees of the unit. Requests for tax returns would be submitted to the CFU, whose employees would quickly locate the return and indicate on the reverse side of the batch folder information such as the name of the requester, date, and reason for request. If the return has been checked out, the requester would be provided with the name and location of the borrower. Computer terminal requests should be considered and are feasible if the CFU is provided with one or more terminals through which it could receive requests for tax returns. In work areas reserved for mass processing, sufficient open shelving capacity should be provided for storage of returns in process. Mass processing areas include receiving, sorting and batching, coding, data entry, error correction, and quality review. The returns should remain in batch and DLN sequence, except for those pulled out for special attention. After the initial processing is completed, batches of returns should be sent to the CFU for long-term storage.

Once requests for older returns diminish substantially, application of microfilm techniques should be considered. New computer and microfilm applications permit quick recovery and reproduction of tax returns at computer terminals.

- If the self-assessment system is adopted, the amount of tax liability will be transcribed directly from the return as the debit transaction, establishing the account for the period. Other selected data required in computing the tax will also be transcribed from the return. All substantiated prepayments shown on the return and any payment made with the return that was not previously posted will be posted as separate amounts to reflect the current account balance. If the self-assessment system is not adopted, the tax liability computed by the inspector and all payments received and verified (but not previously posted to the master file) will have to be manually recorded in a specifically prescribed section of the return for input to the master file. Other selected data will be transcribed from the return.
- In order for the master file to be complete, containing all tax liability assessments and payments, it must contain tax returns from all taxpayers who have a tax liability. This includes taxpayers who have fully paid because their wage withholding is equal to the tax liability. The only people excluded from filing would be those earning less than the minimum required for filing. With this change in filing requirements, master file operations will be more efficient and accurate in reporting tax assessments and payments, as well as in identifying nonfilers. To implement this change the Income Tax Law must be revised accordingly.

COMPONENTS OF THE TAX MASTER FILE SYSTEM

The master file system consists of two major components, the tax master file and the subsidiary files. The tax master file is a file of taxpayers' total accounts that are controlled and accessed directly by the taxpayer's identification number (TIN). The subsidiary files support the tax master file but are not a direct part of the tax master file. They operate on keys that are different from those for the tax master file. For example, the bank file is accessed by the bank's name or bank identification number, and a postal location file would operate on the postal district, city or town name, or postal code. Data from a subsidiary file can be transferred to the tax master file and the specific taxpayer's master file account and used for auditing, collection, or investigation. Three significant processes for master file updating follow.

Input Processing

All documents that have been designated as input to establish or update taxpayers' accounts in the master file must pass through various initial processing functions. Each of the following functions, when performed in the proper order by designated units, will establish pipeline processing of documents. Functions such as receiving, sorting, editing, coding, batching, numbering, and controlling and error correction require manual processing and preparation for computer application by data entry. Beginning with the data entry function, input records are validated to ensure correctness and compatibility with master file updating requirements. If any errors are detected, the computer will reject the record or records and allow the error correction function to make necessary corrections for reinput to the system. All validated records are then used for updating appropriate master file accounts. (See Appendix D.)

Master File Update Processing

Master file update processing can be divided into three categories: (1) actions required to create new accounts, (2) actions required to analyze each account after updating, and (3) security. The first category would be the actions required to create new accounts along with the updating of accounts from input transactions, such as tax returns, related payments, additional assessments, and other account controlling transactions. The second category would include all actions required to analyze each account, after updating, to determine the action that should be taken to satisfy settlement of the account. Such action would determine when to issue acknowledgment letters, compute late payment penalties if required, issue letters of installment due, make periodic checks to detect nonfilers, and issue assessment notices or other taxpayer notifications. It would also produce many statistical and operating reports for internal management use. As a result of any updating of the master file some controls reflecting the activity and status should be printed out. These controls should provide an accurate and current profile of the master file, as of any update cycle, and should be maintained as a historical record. At a minimum, the controls should include the number of taxpayers, by type of taxpayer and the sum of all outstanding debit and credit balances. Another output that would enhance monitoring and controlling is a register of all returns posted within specified periods. The register would contain the TIN, name, income year, return received date, chargeable income, tax payable, and amount paid. A notice list that identifies all taxpayer notices and letters generated during specified periods would also be helpful. This list would provide notice review officers with a tool to assist in quality review and in subsequent research on responses to such notices. These printouts would also aid in research when terminals are not available. (See Appendix E.)

More important, all letters and notices should be informative to taxpayers, in order to avoid complaints or inquiries when the taxpayer's tax due changes as a result of mathematical errors or disallowance of deductions. It would be helpful if taxpayer service personnel responded to inquiries about the letters.

The periodic analysis of the master file to identify nonfilers is one of the significant advantages of the system because it can produce additional revenue at low cost and keep the master file clean by identifying deceased, inactive, and other nonliable persons and businesses. It also flushes out duplicate TINs and taxpayers with more than one TIN. Other checks should be made to identify nonfilers, such as comparing employers' files with the master file to identify employees who may not have filed their income tax return. The nonfiler check need not include 100 percent of the master file accounts but could be selective and include only a check of

businesses and self-employed persons the first year and higher-income individuals the second year, depending on available follow-up resources. It should be among the earliest compliance programs in the new system. The master file should be marked to indicate that a nonfiler letter was issued for the specific year, enabling the system to take follow-up action without reanalyzing accounts.

When computer capacity dictates the physical size of the master file for efficient processing, it is practical to periodically analyze the file, purge old, inactive tax periods or tax accounts, and transfer them to a subsidiary retention file. The master file now becomes an accumulation of tax returns with related data that facilitates assessments, billings, accounting, data retrieval, research, and many other capabilities. When the master file is properly maintained and its integrity substantiated, it could become the official record of returns filed and assessed. This would allow the returns to be retired early to off-site archives.

Security

An integral part of the computer system is the ability to ensure the integrity and security for accessing and retrieving taxpayer information. Establishing and maintaining a tax master file system requires some built-in computer and manual checks to avoid infractions of security and ensure privacy of data protection. This being a large system with on-line databases, there is a special need for security enhancements. The issues of security involve not only the adequacy of protection of information from unauthorized access, use, or disclosure, but also protection against property and data loss, damage, destruction, errors, malfunction, and the like. We recommend that CSTB designate a person as security officer, whose duties would include enforcing minimum protection requirements in the department's tax master file system, as follows.

- **Natural disasters.** Back-up and recovery procedures should be provided in cases in which facilities are not adequate to protect equipment and materials from serious damage from disasters such as earthquakes, floods, fires, and power loss.
- **Query review.** Access of personnel who need to know or use master files and related data should be limited.
- **On-site and off-site storage.** To provide for back-up capabilities, copies should be made of current master file data and father and grandfather files, production programs, and operating systems. They should be moved to an authorized, secure, off-site storage facility whose location is known only by tax department personnel who need to know it.
- **Internal and external standard for labeling disks and files.** A standard should be established for identifying the contents of disks used in master file processing. Internal labels are used by computer programs to ensure the proper identification of input and output files. External labels are required for computer operators and librarians for proper production operations and storage.
- **Audit trail.** Some operating systems provide for the capability to record and store the user or accessor of files and databases. This provides for an accurate audit trail of users and can be used to identify unnecessary and unauthorized use of files. If the operating system does not provide this kind of capability, it should be considered in future plans to enhance the master file system.

- **Programmer authorization.** All operators, programmers, and analysts with access to any part of the system must have limited access codes. Authorization limitations should be left to the discretion of CSTB management.
- **Data entry and terminal operators.** Operators should have access only as needed for their specified job input assignments.
- **Terminal designations.** All terminals involved in the master file system should be assigned an identification number and a purpose. For instance, at one terminal, inputting data to selected parts of the system or correcting data, or both, could be permitted. Another terminal could be designated for inquiry only.
- **Off-site computer back-up.** If there is a compatible computer available in another department, arrangements should be made to exchange back-up disks. Compatibility between the CSTB's system and the back-up computer should be tested. At varying intervals, exchange procedures of both departments should be verified to ensure continued compatibility.
- **File management.** The tax master file system will produce many files, resulting in the need for instructions or a manual to assist management in the control, disposition, certification, and storage of such files. Instructions are necessary for activities such as filing methods for data files and computer programs and procedures for data on disks that are no longer needed and that can be cleared for reuse. Instructions for storage and filing of classified and unclassified master file computer printouts and microfilm records, if applicable, may also be necessary. Information should be provided about the disposal of obsolete data files that have reached designated retention periods (perhaps 3 to 5 years), including disks and paper files.

When the new computer system is installed, all terminals must allow the use of passwords to sign on and off and to access files. In some computer installations, personnel know and use each other's passwords, defeating the purpose of the system.

Signs indicating "Authorized Personnel Only" should be posted in all rooms that house the computer, disks, document files, and computer outputs, as well as other off-limit offices. All entrances to these rooms should be equipped with a changeable combination lock or a lock of comparable security. As stated earlier, someone, such as a security officer, should be designated to be responsible for all security operations including password assignments, changing of locks, file storage facilities, and instructions for observing security rules, and all other related security operations.

PAYMENT TRANSFER SYSTEM

A system needs to be developed to augment the current account/master file systems with authenticated transactions, each of which identifies the payments made by taxpayers through their respective banks. This system would facilitate computerization of reconciling bank transfers and posting tax payments to the tax master file. It would be even more expedient if the payment data were supplied by the banks on magnetic media (diskette). If banks submit the data on diskettes, they should also be required to submit a printout, for back-up, of all transactions and a summary of those included on the diskette.

In view of the volume of ledgers, listings, and other controls that must be reconciled, merged, certified, and presented formally, manual assembly of various reports is time-consuming. Many of these tasks, currently performed by inspectors, bookkeepers, or other designated personnel, can be computerized with a system that provides sufficient input data with each payment. If this system is designed to interact with the tax master file, it can accommodate most of the accounting and reporting requirements. Under this system, inspectors would not have to maintain registers or cards (Form 4a) to record daily payments and monthly and quarterly summaries.

Note, however, that rules, guidelines, and laws may have to be revised or new ones established for interaction between the banks and CSTB if this system is implemented.

PROCESSING BANK TRANSFERS

Necessary Data

Each payment transaction must include the following data:

1. Tax identification number
2. Type of tax
3. Taxable year (fiscal year)
4. Date of payment
5. Amount
6. Source code (code to identify bank receiving payment)

Reconciliation of Local Bank Transfers

Local banks are authorized, on request, to transfer payments for wage withholdings from the enterprise's account, receive tax payments directly from taxpayers, and deposit these payments into the local inspectorate's account within the bank. These deposits must be transferred to the CSTB's appropriate type of tax account(s) at the Central State Bank. The local banks are also required to report these payment transfers daily to the local (rayon) tax office. Steps to reconcile the reported payment transfers follow.

1. On receipt of daily statements of transfers from local banks, reconcile the bank summary statement with the individual transactions received.
2. If the summary and the individual transactions are reconciled, file the summary and related transactions together in the "transfer certification pending" file. This file must be maintained in sequence by bank code and date of transmittal.
3. If reconciliation is not accomplished, contact the responsible bank and initiate research to resolve the discrepancy.
4. Hold the bank's summary and related transactions together in the "bank unbalanced" file while research is being conducted.
5. When the discrepancy is resolved, transfer the summary and related transactions to the "transfer certification pending" file. The "bank unbalanced" file must also be maintained in sequence by bank code and date of transmittal.

6. On receipt of the Central State Bank's statement that certifies a particular bank's transfer of payments, retrieve the respective bank's designated daily summary and related transactions from the "transfer certification pending" file and reconcile with Central State Bank's statement.
7. If reconciliation is accomplished, prepare the transactions for posting to the tax master file.
8. If the Central State Bank's statement does not agree with the local bank's statement, notify the particular bank about the discrepancy.
9. Advise the bank officials that they are responsible for reconciling with the Central Bank and that until the discrepancy is resolved the inspectorate will consider the Central Bank's statement as the actual amount transferred and the local bank will be charged the discrepancy amount.

Master File Posting

Preparing payment transactions for posting to the tax master file requires additional formatting to maintain uniformity between the similar types of transactions. Because these transactions will not have a filing number when they are received from the banks, the computer will need to generate a document locator number for each transaction. This number is not only to conform to the standard transaction format for master file processing, it also reflects the fact that no single document represents the payment. Also, to preclude misapplication of certain payments, special computer processing will be required for some payments.

Because some of these payments will be enterprise payments of wage withholdings, the processing must be prepared so that payment will be credited to the enterprise account, and the computer will debit an equal amount posted to the same account, ensuring that the payment will not be mistakenly treated as a credit toward the enterprise's income tax liability. If the transferred payment is for a return for which there is no withholding, it is processed as a standard payment for the appropriate tax.

All of these payments must be assigned a computer-generated DLN. Any related computer-generated debit transaction must contain the same amount and date for subsequent use.

Insufficient Identification of Payments

When payments are received without sufficient information to identify to whom and for what type of tax the payment is, these steps should be followed to properly identify the payment for posting to the master file, if possible.

- If there is no valid TIN, contact the appropriate bank to identify the TIN or name. If a valid TIN is found and it can be reasonably ensured that it is the correct taxpayer, record the TIN and probable type of tax the payment should be applied to. If there is uncertainty of positive association, process as in the next step below. Process identified payment in accordance with regular payment processing procedures.
- If no TIN can be found, the bank can associate a name, and the name is not on the master file, store the payment transaction in a secure file labeled "registration pending". carry out additional research and if necessary request that the registration unit take appropriate action to register the taxpayer. On notification from the registration unit that the taxpayer

has been registered and established on the master file, retrieve the payment from the "registration pending" file, record all required identification on the payment, and process in accordance with regular payment processing procedures.

- After the above steps have been taken, if the payment cannot be identified with any account on the master file, retrieve it from the "registration pending" file and forward it to the Bookkeeping Unit to be recorded in the general ledger in accordance with the units procedures for processing unidentified payments.

Document Locator Number

Another segment in the development of a computerized system for processing documents is the need to assign a number to each document in the early stages of pipeline processing for filing purposes, rather than using the traditional, time-consuming method of sorting alphabetically. In addition to the TIN, we recommend the adoption of a document numbering system, known as the Document Locator Number (DLN).

The DLN is a unique, permanent number assigned to each document or transaction to be entered into the master file and appears on selected outputs from the master file. It is used to quickly find a specific paper document and to substantially reduce manual handling, sorting, alphabetizing, and filing of forms and other documents. The latter, of course, reduces processing costs and manpower. It can also expedite data entry operations, as homogenous batches of documents are processed en masse.

The alternative to paper shuffling is to allow the computer to sort, alphabetize, and internally sort again at very high speed and much more accurately. It is therefore possible for hundreds of staff-years of manual work to be performed on a medium-sized computer in less than a day. In addition, the DLN can provide a substantial amount of other data. For example, if properly constructed and applied, the DLN can provide such information as the number of tax returns received each day by type of document and by type of transaction, such as assessments made, payments received, or audits or investigations initiated. It can also indicate that the computer generated the transaction as a result of automatic assessments of late payment penalties. In this case there is no paper document for the transaction. When the TIN, DLN, tax return data, and accounting information are analyzed and considered together, a substantial amount of useful, accurate, and timely statistical, operational, and accounting data becomes readily available, and at minimal cost.

Description

1. This 12-digit number is stamped on all documents to be entered into the master file. The DLN identifies the physical location of each document as well as a description of the related transaction. The format of the DLN is as follows: DDTTJJJBSS.
 - DD = document or form number (also known as document code)
 - TTT = transaction code
 - JJJ = Julian day of year processed (001 to 365 or 366) usually the received date
 - BB = batch number (01 to 99)
 - SS = sequence number (00 to 99)

2. During data entry, the first 10 digits are entered only once by the batch header, after which only the two-digit sequence number is entered for each document.
3. During validation of all input transactions, the computer will generate a 13th digit prefix to the DLN. This digit is the last digit of the year in which the DLN was assigned. It rarely appears on input documents, but does appear on the master file and edited outputs.
4. In some instances, the computer will generate DLNs to record actions initiated from the master file, such as penalties. When transactions are generated and posted to the taxpayer's account, the DLN with its special document and transaction codes is composed and printed on the notice.
5. The color of the ink used to stamp the DLN on documents will change each calendar year to avoid misfiling paper documents and to make the DLN unique (no two documents have the same number and color for at least 5 years). Examples for color coding follow.

<i>Calendar Year</i>	<i>Color</i>
1994	Black
1995	Green
1996	Blue
1997	Red
1998	Purple
1999	Black

Internal Filing System

As a result of the proposed method for numbering documents, a new internal filing system will need to be established. All documents in current files will remain under the old system (alpha), and all documents filed under the new system with DLNs will be filed separately. A new operational unit, titled Central Files Unit (CFU), should be established, in each rayon (district). The CFU would be the repository for all new documents received. Under the new processing system, tax returns will be processed in batches based on their DLN and will remain in their batch folders, except when it is necessary to withdraw a particular return for audit or another justifiable purpose. They will no longer be resorted alphabetically or by file number. The DLN is obtained by terminal inquiry or from a registry that is to be printed periodically.

Tax returns that are removed from the batch folder are checked out on the reverse side of the folder. If no change in tax is to be made to the tax returned, they should be replaced in their original batch folder. They do not receive a new DLN and the checkout is lined through. However, if a change in the tax return is made (such as additional, increased, or decreased assessment, including penalty and interest), the return should be given a second DLN called a refiled DLN and should be rebatched and filed under a new DLN.

Forms

Design and management of forms are vital factors in establishing better communications with taxpayers for increased compliance, for computerization, and for controlling the design, printing, distribution, and quality of forms and the destruction of obsolete forms. We recommend that the CSTB create a new position within the central office for a forms control officer (FCO). The following section describes the importance of forms, their objectives, and the need for a FCO.

Importance of Forms

A major factor in any tax collection system is the cooperation of the public—the taxpayers and the tax return preparers. The degree of their cooperation is a good measure of voluntary compliance and of the effectiveness of the tax department.

The most frequent point of contact with the tax department and tax system is the tax return and other forms sent to taxpayers by the department. Experience has shown that when the forms are easy to understand and complete, cooperation and voluntary compliance are high. A set of guidelines has been developed for designing forms intended for taxpayers (external use), as well as the department's employees (internal use). Despite the complexity of the law, the tax administrator must be able to communicate with taxpayers and employees in a language that they can understand and follow with minimum errors.

Introduction of a computer system adds other factors to be considered in the design of forms, such as mass input processing and the need to avoid irritating processing errors.

Forms Design Objectives

The ideal form is one that:

1. Is easy to understand and complete because much of the data, such as name, address, and TIN, has been preprinted and the instructions for completing the remainder of the form are self-contained and direct to specific lines or box references on the form.
2. Has a title that clearly identifies its purpose, and the data requested is consistent with this purpose.
3. Is of an easy-to-handle size—fits in a standard typewriter or computer printer and is convenient to store (fits in a standard filing cabinet or desk drawer).
4. Can be quickly, accurately, and efficiently processed. If it is to be transcribed (data entry) for a computer system, the data should be easy to find by line number references in both margins and should be printed or written in specific areas or boxes to the extent reasonable.
5. Has adequate space for entering the requested data and line spacing that matches a standard typewriter or computer printer.
6. Has a unique form number and the date it was printed or reprinted.

Forms should therefore be as easy as possible to complete, process, and store. Problems with paper documents have long been recognized, and some progress has been made to eliminate the paper. For example, in some countries goods can be ordered by telephone and the cost charged to the receiver's bank account without a paper document for the transaction. It is also possible to charge groceries without writing a check—the total price is automatically charged to the customer's bank account. Millions of U.S. taxpayers file paperless tax returns (the data are transferred via computer media to the IRS). However, the "paperless society" age is still in the distant future and forms design, handling, and storage still needs to be improved.

Forms Control Officer

The CSTB should employ a specialist in forms design and control to ensure that (1) annual forms are revised, ordered, and delivered on time; (2) any new form is justifiable and that no similar form is already in use or that a modest change in an existing form will not serve the purpose; (3) each form has or is assigned a unique form number; (4) the form number and date created or amended appears in a uniform place on the document; and (5) that the form is designed in accordance with acceptable design concepts and practices.

The FCO should meet frequently with officials involved in creating or ordering forms to train them in good forms design techniques. Among other subjects, he or she should discuss the concept that "paper is bad" and should be avoided when possible. A study showed that the average piece of paper sent by a tax department to taxpayers, creates two and one-half new pieces of paper. The FCO should also discuss the concept that "bad paper is worse"—that is, forms sent to the public that contain errors or erroneous data should be avoided because they cause confusion and annoyance and tarnish the department's reputation and image. To avoid the production of bad paper by the computer, the system should contain numerous validity checks for each process, and a final quality review, at least on a sampling basis, should be made before mailing any paper notices or forms.

The FCO should assist operating officials and research staff in analyzing reports of bad paper to determine whether the complaint was caused by the design or content of the forms. He or she should also participate in developing the criteria for the quality reviews of forms. These should include not only rechecking figures, dates, and computations, but ensuring that the forms are printed legibly; data are on the correct lines; the TIN, name, and address are complete; and due dates or action dates are reasonable.

The FCO should maintain an up-to-date record and two samples of each form and related instructions or guidelines used by the department, including those created by the Computer Department. One of his or her first activities would be to take an inventory of all existing forms. The next activity would be to review each form to eliminate duplicates, if any, combining similar and voiding obsolete forms, in consultation with the operating officials. All requests for new forms would have to be approved by the FCO, who would first thoroughly review its contents for duplication, tone design, and quantity needed. He or she should also assist in developing the distribution schedule, determining who should receive the form and the number of copies to be sent.

And finally, the FCO should coordinate forms developed by other government departments that exchange data with the tax department through paper forms and by large companies and tax practitioners to encourage them to standardize the size, design, and contents of forms. Computer media reporting of data should be encouraged instead of paper.

If a candidate with the necessary qualifications and experience in forms design and management cannot be recruited, a person with potential for such work should be selected to receive training outside Uzbekistan.

Procedures Manuals

We recommend immediate action to prepare comprehensive procedures manuals and to implement a training program covering the subjects listed under Recommended Training Courses in this chapter and to provide additional training as the computer system is expanded and tax laws are revised. The following references are made to emphasize the importance of this recommendation. Employees need detailed instructions on the tasks they are assigned—especially because the

computer system requires uniform processing, such as coding, editing, and reviews. Employees need training about their job requirements. Preparation of a procedures manual describing *what* is to be done, followed by training explaining *why*, and *how*, can be very useful in increasing productivity and reducing errors.

Relationship Between Procedural Manuals and Training

The quantity and quality of work performed by employees often depends on the instructions they received before they began doing the tasks, as well as the information available to them when they confront a problem or abnormality.

In work related to computer processing, uniformity is important and, in processing tax returns and related data, equal and uniform treatment of documents is essential.

The best methods of ensuring high production and uniform quality are (1) preparation of a procedures manual that covers all segments of the process and (2) development of a training program that uses the procedures manual as the basic training tool.

The procedures manual should describe in detail *what* the processing staff is expected to do, whereas the training program should explain *why* a task is to be performed in the manner described in the procedures manual. Both the procedures manual and training program should provide the processing staff with information about the tasks that preceded their work as well as subsequent operations, informing them about the condition the work should be in when it is received and the consequences of their acts on subsequent operations.

Procedures Manual Basic Concept

The procedures manual should be developed on the assumption that everything will be imperfect, and its content should describe every possible situation and provide a uniform solution. It should assume that not all taxpayers will follow the instructions. For example, for each question on the tax return, the manual should describe what the coder should do if the taxpayer does not respond or gives an answer that is inconsistent with other information on the return.

Preparation and Standardization

The procedures manual should be developed and prepared by the operating personnel with the assistance of computer technicians, when appropriate. The manual preparers need guidance on the format of the manual to ensure that all chapters in the manual are consistent. The first chapter should describe the guidelines and rules for preparing the remaining chapters. (See Appendix F for an example of a manual format).

Recommended Training Courses

The following courses are recommended for the CSTB's personnel. If the CSTB cannot provide the Basic Supervisor's Course and the Basic Manager's Course outlined in Items 2 and 3 below, consideration should be given to obtaining comparable courses outside Uzbekistan.

1. Introduction To Tax Department Processing (2 hours)—New Employees
 - (a) Introduction to Managers
 - (b) Organization of the Department
 - (c) Functions of Department and Particular Work Unit
 - (d) Administrative Work Rules and Guidelines

- (e) Tour of Facility
- 2. **Basic Supervisor's Course (4 to 5 days)**
 - (a) Mental Attitudes
 - (b) Effective Communication
 - (c) Understanding People
 - (d) Handling People
 - (e) Self Organization
 - (f) Optimizing Time
- 3. **Basic Manager's Course (4 to 5 days)**
 - (a) Emotional Control
 - (b) Mental Attitudes
 - (c) Effective Communication in Management
 - (d) Flexibility to Changes
 - (e) Handling People
 - (f) Organization
 - (g) Directing Supervisors
- 4. **Receiving, Numbering, Sorting, and Control Processing (3 days)**
 - (a) Objectives of Work
 - (b) Importance of Quality
 - (c) Production Standards and Goals
 - (d) Special Coding Instructions (with examples)
 - (e) Preparing Test Data
 - (f) Common Errors Detected by Computer
- 5. **Coding and Editing Procedures for Applicable Forms (3 days)**
 - (a) Objectives of Work
 - (b) Importance of Quality
 - (c) Production Standards and Goals
 - (d) Special Coding Instructions (with examples)
 - (e) Preparing Test Data
 - (f) Common Errors Detected by Computer
- 6. **Error Correction Procedures (3 days)**
 - (a) Objectives of Work
 - (b) Importance of Quality
 - (c) Production Standards and Goals
 - (d) Special Coding Instructions (with examples)
 - (e) Preparing Test Data
 - (f) Common Errors Detected by Computer

Organization and Staffing (Computerization Functions)

CSTB has received proposals for reorganizing its activities and increasing the efficiency of the Tax Board. We propose establishing and implementing a separate functional organization within each oblast and rayon office that will be responsible (as shown in Appendix G) for maintaining the staffing of a computerized tax returns (with related documents) processing function. Proposals

made here should be reviewed for potential impact on broader proposals that were made previously or are under current consideration. With automation becoming the prime consideration for many changes in organizational functions, the only significant changes recommended at this point are the realignment of professional and clerical staff and the provision of adequate space to accommodate computerization.

The number of staff for each rayon office should be reduced if the volume of input documents is not sufficient to justify such staffing. Proposals to reorganize the department provide an opportunity to further streamline the rayon offices. One aspect might be the realignment consolidation of selected rayon offices to achieve more efficient utilization of computer equipment. The staff of computer related units should be composed primarily of employees of current units and retrained accordingly.

In addition, one of several important steps in a major reorganization is the development of a clearly described delineation of duties, responsibilities, and authorities between the managerial and operational components. Carefully written functional statements should be prepared before personnel are moved to avoid confusion and misunderstandings about the employee's new assignments and responsibilities. These statements and the new position descriptions for each person whose duties are modified by the reorganization should be distributed and discussed with the affected personnel.

7. Audit System and Software Performing Basic Audits in Oblast Offices

Inasmuch as this is CSTB's second year of operation, we believe that the board has not recognized the need for more basic information about taxpayers and their habits and trends concerning compliance with tax laws. While no software exists that actually performs basic audits, software is available that can identify returns for audit potential and perform other functions to assist the auditor. Therefore, in order to better understand the characteristics of the tax-paying public and their problems and to identify pockets of resistance and trends in noncompliance, research activities often apply three programs. These programs are the Taxpayer Measurement Compliance Program (TCMP), the Discriminant Function Scoring (DIFS), and the Canvass Program. They are usually developed, controlled, and analyzed by a unit within the department assigned to conduct research because they are interrelated and the data obtained are shared. However, they each have different purposes, as described next.

TAXPAYER MEASUREMENT COMPLIANCE PROGRAM

The TCMP Program attempts to identify the universe of taxpayers to measure the degree of taxpayer compliance, including pockets of noncompliance by type of business activity, type of business organization, geographic area, and other characteristics. It also attempts to identify the cause and nature of noncompliance. Using statistical data, revenue reports and other sources, such as gross domestic product, imports, exports, and foreign exchange transactions, and by applying macroeconomic concepts and computer formulas, it attempts to estimate the total potential sales or turnover, gross and net profits (after consideration of concessions, exclusions, deductions, and allowances) and total tax payable. The potential "revenue gap" is estimated by comparing the TCMP results with actual Tax Department data and collections. Refinements and further analysis attempt to develop more refined data about noncompliance by such factors as business activity and geographical location. It is also used for long-term planning and applying demographic and modeling techniques and it generally produces more accurate results as additional data and experience is developed and applied.

DISCRIMINANT FUNCTION SCORING

The DIFS Program takes a different approach. It assigns a weight or score to each significant item on the tax return and other related data that may not be shown on the return. It includes an evaluation of answers to the questions on the tax return, the Standard Industrial Code (SIC) that identifies the principal business or professional activity, the preparer of the returns (if professional), as well as results of prior years' examinations. Data from external sources, such as statistics, published financial reports, and trade journals, as well as information from other departments, are also used.

Using mathematical formulas for each major SIC, weights are assigned to each element of data. The weights are recalculated each year on the basis of additional data acquired, such as the

results of audits and other data that are fed back. Returns with the highest score, based on a sum of the weights, are selected for audit and examination. The computer system identifies the main causes for selecting the return and prints an audit assignment and control form in several parts. One part is used to requisition the tax return from the files, another to set up an appointment with the taxpayer, another to assign the case to an auditor, and another acts as the control over the tax return and the case file. The last part is retained by the audit supervisor.

When the case is closed, the back of the form is filled in by the auditor to describe the results of the audit. Selected data from this form are entered into the tax master file system, and the prescribed account adjustment and revision of DIFS is made, if appropriate.

CANVASSING PROGRAM

The Canvassing Program involves direct contact with self-employed individuals and business taxpayers by visits to their place of business. The usual approach is to identify a geographical area (a street or streets in a city) and to contact every business in the area. A canvass questionnaire form is used to guide the canvasser's questions and observations. Such visits have proven to be very productive in identifying nonfilers and underreporting of income. The data are fed into the TCMP as another indicator of noncompliance.

These programs and other studies that will help to increase compliance require the special skills of a statistician because they usually involve sampling techniques and statistical analysis. Familiarity with scientific computer utilization and programs is also required. We therefore recommend that CSTB employ a person with these required skills, from either Uzbekistan or abroad.

In terms of external resources, a person with such research and statistical skills could be hired from the U.S. Internal Revenue Service's current and retired employees. The IRS has a relatively large staff engaged in this work and is where many of the concepts and programs described in this report originated.

Appendix A
LIST OF CONTACTS

Name	Title and Affiliation
Emil Sundley	Chief of International Monetary Fund Mission
Al Firestone	Tax Administration Expert, IMF
Daria Fane	Second Secretary, U.S. Embassy
Michael Matera	DCM, U.S. Embassy
Dr. Abdoulla Abdoukadirov	Deputy Chief, CSTB
Dr. Jorilla Abdullaev	Department Chief, CSTB
Karlfried Metzler	Director, GTZ
Udo Lautenbacher	Technical Adviser, GTZ
Juan Guillermo Amaya	Technical Adviser, GTZ
Fazalidin Khusnitdinov	Director, CSTB
Zafar Ergashev	Deputy Director, Tashkent City Tax Office
Shukhrat Faizullajev	Chief Inspector, Lenin District Tax Office
Dr. Jane Bardon	Economic Project Manager for Central Asia, NIS Task Force, USAID
Dilorom Yusupova	Chief, Computer Section, CSTB
Shamill Gataulin	Minister, Chief of CSTB
Erkin Khusnutdinov	Department Chief, CSTB
Amrillo Babakhodzhayev	Chief, Bukhara Oblast Tax Office
Shukhrat Khamidovich	Deputy Chief, Bukhara Tax Office
	Chief Inspector, Textile District, Bukhara
Oleg Elibavevich Akhmedov	Chief, Employment Department, CSTB
Ahmed Khalilov	Asian Business Agency
Abdul Hasim Mutalov	First Deputy, Tashkent Oblast Tax Office
Shukhrat Tadjibayev	Deputy, Tashkent Oblast Tax Office
Abdul Hamid Mansurov	Chief of Personnel, Tashkent Oblast Tax Office
Abdul Yakhob Rakhimdjanov	Chief Inspector, Tashkent Oblast Tax Office
Rustam Puziev	Deputy Investigator, Tashkent Oblast Tax Office
Nariman Khaitkulov	Chief Inspector, Chirchia Rayon Tax Office

Appendix B
CSTB STAFFING

**Table B-1. Authorized Staffing for
Central State Tax Board of
Uzbekistan (as of June 1, 1993)**

	Authorized Staffing
Oblast	
Tashkent City	1,256
Tashkent	901
Fergana	713
Kashkadar'ya	511
Samarkand	689
Navoi	331
Andidjan	582
Bukhara	473
Namangan	529
Khorezm	415
Karakalpakstan	460
Surkhandar'ya	358
Syrdar'ya	337
Kjizak	325
Central State Tax Board	220
Total	8,100

Appendix C

COMPUTERIZATION OF THE CENTRAL STATE TAX BOARD

This plan for computerization of the Central State Tax Board (CSTB) was developed in response to your request. In developing our plan we had the benefit of discussions with members of the IMF Mission on Tax Policy and Tax Administration who are in Tashkent at this time. We took advantage of their expertise in developing the accompanying action plan and the attendant cost estimates.

Our plan envisions that computerization will be implemented as follows:

1. The 12 oblasts, the City of Tashkent, and the Karakalpakstan Autonomous Republic (hereinafter referred to as "oblasts") will be equipped with microcomputers and printers within a local-area network environment to become the processing service centers for their respective rayons. They will maintain master files of information on all taxpayers in the oblasts and provide data entry, revenue accounting, delinquency checking, stop-filer processing and audit support programs for all rayons. As a by-product of work related processing, all the management information reports will be produced, including the 1-N and 2-N report series. The service centers will produce delinquency notices, stop-filer lists and lists of potential candidates for auditing by the tax inspectors of the rayons; they will also print tax forms and other informational materials to be provided to taxpayers.

2. The rayons will be reorganized to become the focal point of contact with the taxpayers. The majority of the staff of the rayons will be concentrated in three functions: (1) Taxpayer Services Section to provide information on tax laws and regulations and assistance to taxpayer on preparing their returns and meeting their tax obligations; (2) Arrears Collection Section to secure submission of tax returns and payment of taxes due but unpaid; and (3) Audit Section to audit taxpayers' books and records to ensure the correct amount of revenue to the Republic. The arrears collection and audit activities will be undertaken only upon notification by the service center of the delinquency of a taxpayer or the probability established by the computer that a taxpayer is underreporting his sales or overreporting his expenses.

3. We plan to have in each service center a minimum of two file servers of the 80586 class. [Editor's note: Technically there is no "80586", or "586," chip. Intel decided to break with its numbering system and call the '586 technology "Pentium."] Each service center will also be provided with on-line storage capacity, data input terminals, printers, and other auxiliary equipment sufficient to handle the workload of that service center. Each service center will also be equipped with laser printers to enable it to print informational materials for taxpayer service needs. The Central State Tax Board will have a computer system very similar to the service center system to enable headquarters staff to develop the appropriate computer programs for the entire Republic and to maintain, for security purposes, back-up copies of the oblast-level files. We also recommend that the CSTB establish a unit at headquarters that would be responsible for designing tax forms, drafting regulations and creating informational publications for taxpayers.

Prepared and forwarded to Chief of the Central State Tax Board (Minister) by Deputy Chief Dr. Abdoulla Abdoukadirov.

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4. As a prerequisite to computerization we need to (1) assign taxpayer identification numbers to all taxpayers, (2) revise our tax laws to create a self-assessment system, (3) simplify tax forms and other documents and (4) improve the bank collection services. During the process of computerization we need to develop computer programs to (1) generate taxpayer identification numbers, (2) process returns, (3) establish an automated accounting system, (4) control stop-filers and delinquent accounts, (5) select returns for audit, and (6) produce management information reports.

5. To implement this program will take a minimum of 3 years. We propose to initiate the computerization program with the City of Tashkent and its rayons. We would start with the major sources of revenue (VAT, Excises, Enterprise Profits and Individual Income Tax) and computerize their processing in Tashkent. When this first service center is operating successfully, we would activate the service centers in the other oblasts. In the meantime, we would continue the computerization effort with the processing of the remaining taxes in Tashkent and again expand to other service centers.

6. Until computerization of the oblasts is complete the rayons will need to be equipped with minimum numbers of microcomputers to automate the current reporting requirements and to process local taxes and fees.

The costs for the full-scale computerization effort are estimated in the following table (in thousands of U.S. dollars).

	1994	1995	1996	Total
Computers for Tashkent plus rayons	150	150	—	300
Computers for other oblasts plus rayons	—	200	1,100	1,300
Computers for Headquarters	130	—	—	130
Auxiliary equipment	20	20	20	90
Computers for rayons	115	115	120	350
Total	415	435	1,270	2,170

In the attached [annex] is the proposed implementation plan, together with a more detailed cost estimate.

Annex

Action Plan for Computerization

This project will be implemented in a number of stages. The initial phase contemplates the implementation of a basic tax administration system in the City of Tashkent Inspectorate by December 31, 1994.

1. The first phase consists of only those steps that are necessary to implement a minimal system for processing of payment orders and tax returns of payers at the City of Tashkent Inspectorate and its eleven rayons and changing the procedures of the corresponding rayon inspectorates by December 1994. This computer system will provide the authorities with the following capabilities:
 - Verification of existing registration lists of taxpayers. Registration of new taxpayers; computerized assignment of taxpayer identification numbers.
 - Maintenance of a taxpayer register.
 - Creation of a basic master file.
 - Initial processing of returns and payments and the accompanying correction procedures.
 - Balancing of payments from taxpayers against the deposits by the banks to the appropriate budget.
 - Maintenance of a computerized revenue accounting system to record the fact of filing and fact of payment only.
 - Detection of non-filers and non-payers.
 - Minimal validation and verification of taxpayer data.
 - Back-up and recovery procedures.
 - Minimal reports and statistics
 - During this time period other actions will be taken that are related to the computerization effort:
 - Publicity and a taxpayer information program will be developed.
 - The staffs of the rayon inspectorates will be introduced to new procedures and practices of interacting with the computer system.
 - Tax returns, payment forms and internal use forms will be redesigned to suit a computerized environment.
 - Tax inspectors will be trained in modern audit techniques.

2. The second phase of the pilot project effort, beginning on January 1, 1995, and becoming operational by the end of 1995, is intended to enhance the basic capabilities of the computer system with the following functions.
 - A system for the selection of returns for audit.
 - Enhanced management information capabilities.
 - Automation of the refund procedures.
 - Calculation of penalties and interest.

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- Exchange of information with Customs.
 - Collection of data for the statistics system
 - Printing of non-filer and delinquent account notices and bills.
 - Processing of audit and collection adjustments (i.e., responses to non-filer and delinquent account notices and bills).
 - Related actions will be taken to enhance the system; for example, the City of Tashkent Tax Inspectorate and the 11 rayon inspectorates will be reorganized on a functional basis with units devoted to taxpayer service, collection, and audit being formed.
3. A computer department in the CSTB Inspectorate will be activated in order to
 - Consolidate oblast-level data for statistical purposes.
 - Maintain back-up files for the oblasts.
 - Maintain a centralized control on assignment of taxpayer identification numbers.
 4. Beginning in early 1995 for operation in 1996, actions will be taken to expand the system to other taxes, such as the personal income tax.
 - The structures of the databases and masterfile will be expanded to accommodate those other taxes.
 - Taxpayer identification numbers will be assigned to persons who are required to present returns and make quarterly advance payments.
 - A complete security system will be installed.
 - The revenue accounting system will be revised to accommodate other taxes for which enterprises and individuals are liable.
 - The management information systems will be revised for other taxes.
 5. Beginning in mid-1995 period there will be a continuous evaluation of the results of the pilot project. Plans will be developed and preparations will be made for expansion of the computer systems and new manual procedures to other oblasts, including those oblasts that are not yet computerized.

COST ESTIMATES OF THE COMPUTERIZATION PLAN

1. **Workload and choice of equipment.** The specific number and type of file servers, terminals, and printers required will be finally based on a more accurate estimate of current and projected volume of work.

Therefore, the configurations and prices given below are approximate. For the purposes of budget estimates, an average system was designed and estimates made on the basis of using a local-area network (LAN) with an 80586 [Pentium] file server under DOS.

It should be noted that the cost estimates are for a full system in each oblast and are based on total implementation of all processing of returns, payments, adjustments, information returns, and other documents. In reality, the system will be implemented in stages, and the costs will be spread over a 2- to 3-year period.

2. Basic computer units

a. File Server

One IBM-compatible microprocessor
Processor 80586 [Pentium] (50 MHz minimum)
16 MB RAM
256K cache, EISA
One 3.5" diskette drive (1.44 MB) and
One 5.25" diskette drive (1.2 MB)
One serial and 1 parallel port
One hard-disk drive, minimum 1000 MB
High-resolution color screen
Keyboard
Modem (9600 baud)
Streamer tape
MS-DOS 6.0 operating system software
Estimated cost: US\$ 12,000

b. Data Entry Terminal

IBM-compatible microprocessor
Processor 80386SX (25 MHz minimum)
4 MB RAM
64K cache, ISA
One 3.5" diskette drive (1.44 MB)
One serial and 1 parallel port
One hard-disk drive, minimum 80 MB
Monochrome monitor
Keyboard
Modem (2400 baud)
MS-DOS 6.0 operating system software
Estimated Cost: US\$ 2,000

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3. Service center equipment requirements for Tashkent¹

<i>Computer Equipment</i>	<i>No. Units</i>	<i>Unit Price (in US\$)</i>	<i>Total (in US\$)</i>
Microcomputer	6	12,000	72,000
80386-type microcomputer	50	2,000	100,000
Printer 300 c.p.s., 9 pin	10	1,500	15,000
Printer, laser	4	3,000	12,000
Generators (25KVA)	4	8,000	32,000
UPS (3KVA)	6	6,000	36,000
Repair kit	6	200	1,200
Cleaning kit	6	100	600
FoxPro v. 2.5 or equal	6	1,000	6,000
Novell v. 3.11 or equal	6	1,500	9,000
Cables and supplies			10,000
Paper and supplies			8,000
Subtotal			300,000

<i>Auxiliary Equipment</i>	<i>No. Units</i>	<i>Unit Price (in US\$)</i>	<i>Total (in US\$)</i>
Calculators	12	50	600
Copiers	2	3,000	6,000
Bursters	2	500	1,000
Decollators	2	500	1,000
Date Stamps	6	25	150
Numbering machines	6	100	600
Staplers and others			1,650
Subtotal			11,000
Total			323,000

Workload: Tax returns/month	53,620
Payment documents/month	53,620
Other tax returns/adjustment	10,724
Total	117,964

Work days/month	18
Work hours/day	7

¹Tashkent is estimated to produce 40 percent of the revenue but requires only 20 percent of the total equipment. Thus, estimates for the balance of the country are much smaller than a strict 13/14ths would require.

4. Headquarters (CSTB Inspectorate) equipment needs

<i>Computer Equipment</i>	<i>No. Units</i>	<i>Unit Price (in US\$)</i>	<i>Total (in US\$)</i>
80586 microcomputer	4	12,000	48,000
80486 microcomputer	15	2,500	37,500
Printer, 300 c.p.s.	4	1,500	6,000
Generators (20KVA)	2	6,000	12,000
UPS (3KVA)	2	6,000	12,000
Repair kit	1	200	200
Cleaning kit	2	100	200
FoxPro v. 2.5 or equal	4	1,000	4,000
Novell v. 3.11 or equal	2	1,500	3,000
Cables and supplies			5,000
Paper and supplies			2,200
Subtotal			300,000
<i>Auxiliary Equipment</i>			
Calculators	12	50	600
Copiers	2	3,000	6,000
Date stamps	2	25	50
Numbering machines	2	100	200
Other supplies		1,150	
Subtotal		8,000	
Total for Headquarters		138,000	

5. Rayon equipment needs

<i>Computer Equipment</i>	<i>No. Units</i>	<i>Unit Price (in US\$)</i>	<i>Total (in US\$)</i>
80286 microcomputer	250	1,000	250,000
Dot matrix printer, 9-pin	250	300	75,000
Modem, 2400 baud	250	100	25,000
Total for all rayons		350,000	

6. Equipment costs by year (US\$ thousands)²

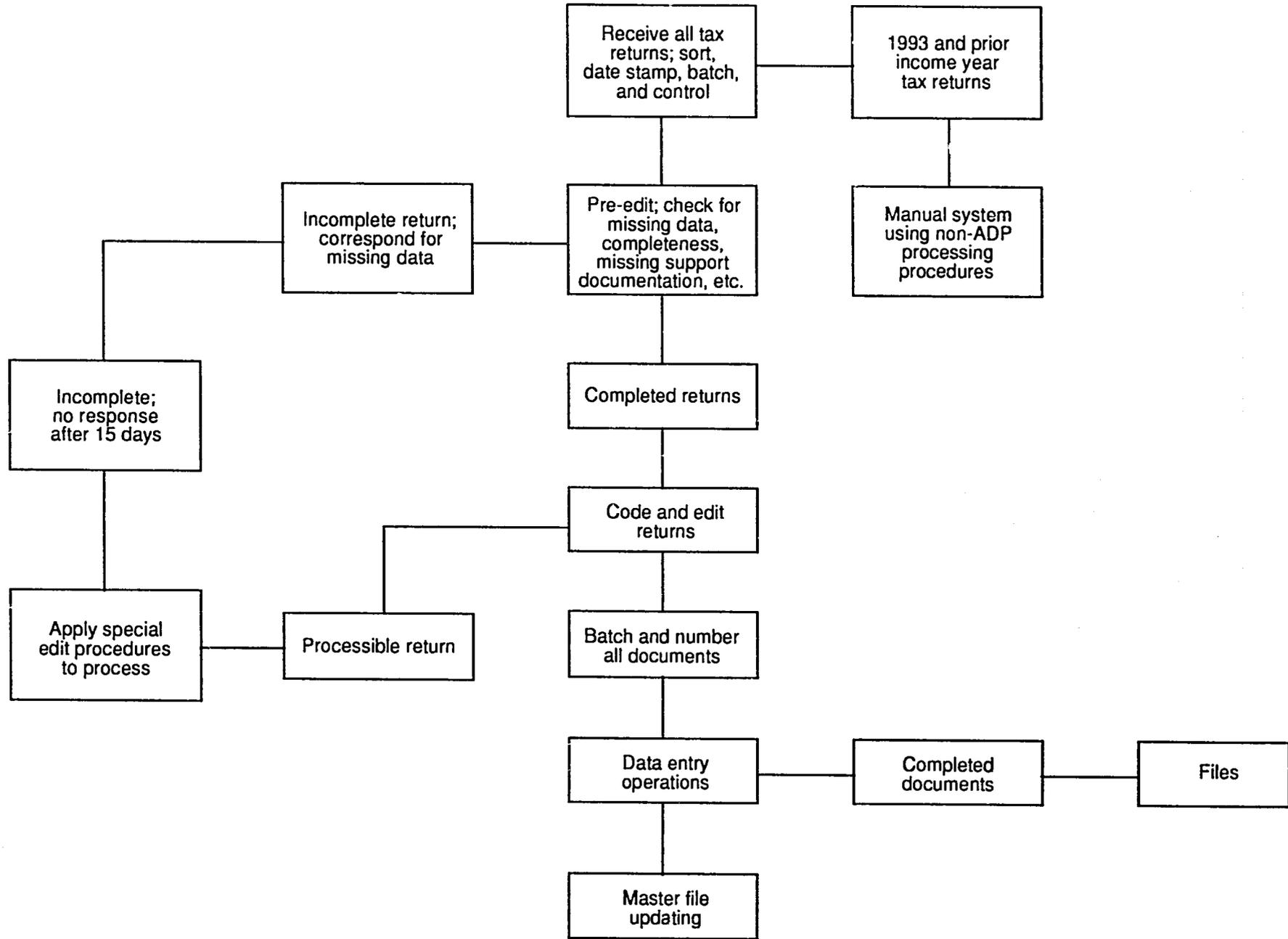
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>Total</i>
Computers for Tashkent plus rayons	150	150	—	300
Computers for other oblasts plus rayons	—	200	1,100	1,300
Computers for headquarters	130	—	—	130
Auxiliary equipment	20	20	50	90
Computers for rayons	115	115	120	350
Total	415	485	1,270	2,170

²These figures exclude expendable supplies and maintenance, which would add approximately 8 percent per year to equipment costs.

Appendix D

TAX RETURNS PROCESSING PIPELINE

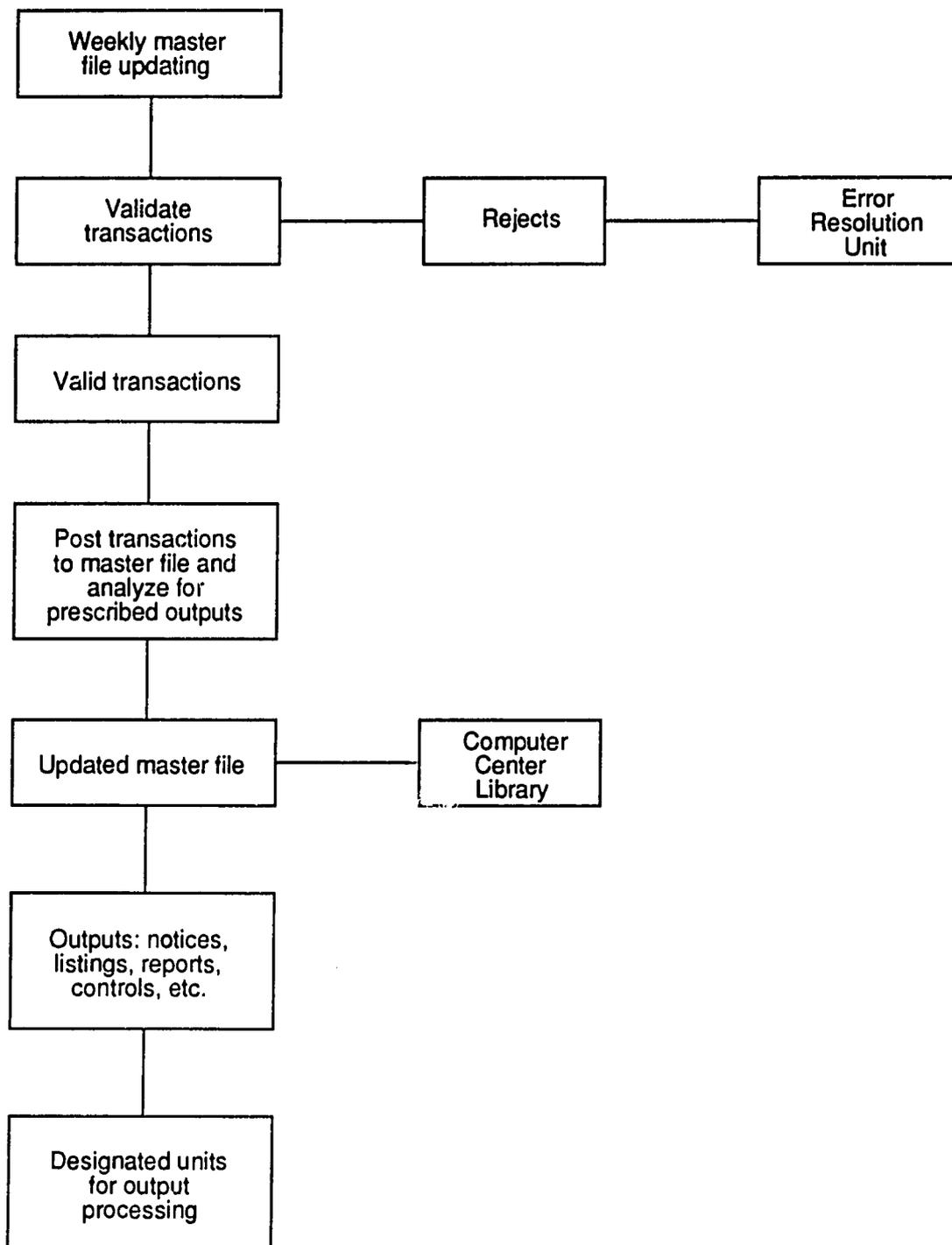
Figure D-1. Tax Returns Processing Pipeline



Appendix E

PROCESSING MASTER FILE TRANSACTIONS

Figure E-1. Processing Master File Transactions



Appendix F

CENTRAL STATE TAX BOARD DATA PROCESSING PROCEDURES MANUAL

CHAPTER 1. GENERAL

Section I—Purpose

The purpose of this chapter is to describe a standard format for each of the subsequent chapters listed in the Table of Contents, and to provide training and guidance to other instructional documents that can help persons involved in the new data computerized system to better understand the tasks assigned to them.

Section II—Standard Format

- A. A separate set of instructions will be prepared for each Chapter in the Table of Contents, and as necessary additional chapters will be added to the Table of Contents.
- B. The heading of the first page of each chapter will be as above:
 1. "CENTRAL STATE TAX BOARD"
 2. "DATA PROCESSING PROCEDURES MANUAL"
 3. Chapter Number and Title
 4. Place the month and last two digits of the year (e.g. "June 93") near the top right corner of each page.
 5. Number each section of the chapter with Roman numerals (e.g. I, II, etc.)
 6. The first section should always be entitled "Purpose."
 7. Attach as many exhibits as possible (a picture is worth a thousand words) and make the exhibits as complete and accurate as possible; that is, use filled in forms rather than blank ones. Also, give examples in the text portion of the instructions to illustrate and support the narrative procedures. Number each exhibit with the chapter number, followed by the exhibit number (e.g., Exhibit 7-3 for the third exhibit for Chapter 7). Also enter the month and year at the top of each exhibit as described in Item B.4.

Section III—Procedures Writing

- A. Assume the readers do not have much advanced knowledge of the subject, therefore
 1. Before using an abbreviation, acronym or code, such as TIN, TC, DLN, be sure to first state its meaning, followed by the abbreviation. [e.g., Tax Identification Number (TIN), Document Locator Number (DLN)].
 2. Give enough examples to explain more clearly a complicated instruction.
- B. Write plainly and use only words the readers can easily understand.
- C. Try to cover every possible situation or condition, but provide for a personal contact so the operators can get help quickly to resolve a problem. For example, add this sentence at the end of a complex instruction. "See your supervisor if a condition occurs that is not covered in these procedures."

Section IV—Changes to the Procedures Manual

- A. Retain a clear copy of the original page and exhibit of each chapter and label it in pencil "MASTER."
- B. When making a change to a page or exhibit, change the master copy as follows:
 - 1. Enter the revision date at the top of the page below the original date (e.g., Revised 4 July 93).
 - 2. Draw a vertical line in the margin (left or right) opposite the line(s) that have been changed.
- C. If the change is not too significant do not reproduce immediately, but hold for additional changes to the page or chapter and then reproduce.

Section V—Reproduction and Distribution

- A. Sufficient copies of the chapter should be made
 - 1. For each person who is expected to perform the tasks described in the procedures.
 - 2. For each supervisor, manager, and executive responsible for the operation.
 - 3. For training the present staff as well as future staffs on the operation.
 - 4. For the preparer of the chapter(s).
- B. No operation should start without first adequately reviewing the chapter with the supervisors and operators, and providing them with sufficient advance training to ensure they understand their jobs and know how to perform the duties assigned to them. On-the-job additional training and reviews of new employees' work should follow the classroom training.

Appendix G

**STAFFING FOR A COMPUTERIZED
PROCESSING FUNCTION**

Figure G-1. Staffing for a Computerized Processing Function

CSTB (24)	
Analyst/Programmer	15
Managers	2
Management Analyst	5
Controllers	2

Oblast 01 Tashkent (8)	
Analyst/Programmer	2
Computer Operator	3
Manager	1
Controllers	2

Oblast 02 Bukhara (8)	
Same staffing as Oblast 01	

Oblast 03 Samarkand (8)	
Same staffing as Oblast 01	

Rayon 01 (15)	
Files Management	2
Sort and Number	3
Code and Edit	5
Data Entry Operators	3
Managers	2

Note: The staffing for every oblast is to be the same as that for Oblast 01. The staffing for rayons is likewise.

Appendix H

DETAILED DESCRIPTION OF ESTIMATED COSTS FOR ADVISERS

**Table H-1. Detailed Description of
Estimated Costs for Advisers**

Expenses	Option 1	Option 2	Option 3
Recurring			
Salary	5,000	6,000	7,000
Fringes, overhead, fee (2.5%)	7,500	9,000	10,500
Differential (25%)	1,250	1,500	1,750
Housing	1,000	1,000	1,000
Monthly recurring total	14,750	17,500	20,250
Annual total	177,000	210,000	243,000
Nonrecurring			
Travel and related expenses	10,000	10,000	10,000
Shipping and storage	15,000	15,000	15,000
Other direct costs	3,000	3,000	3,000
Total	205,000	238,000	271,000
Average			238,000

Note: These calculations apply to an adviser with one spouse and no children.