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SPECIAL CONSIDERATIONS IN COMPLETING PROJECT
APPRAISAL REPORTS ON TREASURY PASA ACTIVITIES

(Reference: AIDTO CIRC. A-171: Program Evaluation-Treasury PASA (PE #12)

PART I - PROJECT IMPACT

(1) Attitude of Host Country Officials

- (a) The Tax System of Costa Rica is structured with a Minister of Finance, charged with the administration of internal and export taxes and directly under the Minister is a Vice-Minister and immediately below him is the Director General of Direct Taxes. This last title is a misnomer since the Director General administers some indirect taxes and property taxes in addition to direct taxes.

The Tax Advisers since the inception of this project in 1964 have worked in the Office of Direct Taxes. Although the bulk of the efforts of the Advisers have been in the Office of the Direct Taxes, contacts are maintained at all levels and agencies of the Ministry as well as other offices of the GOCR including the Planning Office, Civil Service Commission, etc.

Over the life of the project the advisers have gained acceptance and the confidence of the various Tax Directors.

Proffered advice has been accepted both explicitly and implicitly. This is evidenced by the adoption by the GOCR of a completely reorganized tax department which is designed along functional lines and promises to greatly enlarge the scope and effectiveness of tax administration in Costa Rica. In addition to this, acceptance has been manifested in other concrete ways.

In the year 1968, for the first time, the Tax Office adopted and put into effect a work plan for tax administration improvements that included some 42 separate sub-projects. This plan was largely developed by the members of the Tax Team working with the Director General. The plan was endorsed by the Minister of Hacienda and in effect has made it his plan.

Designated officials have been given the responsibility for monitoring each of the projects. The PASA Tax Team has assumed the responsibility for monitoring the whole program. Periodic checks are made on the progress of the assigned projects. In addition new forms and procedures by the Tax Team have been put into effect.

- (b) The Tax Team has not operated in the area of customs. The Direct Tax Office has recognized the functional elements of revenue administration.

This is witnessed by the adoption of a new functional reorganization of the Direct Tax Office. The Cadastral Office was consolidated with the Tax Office for better coordination and control. The collection of delinquent taxes is under the control of the Minister but is physically located in the Direct Tax Office and under the functional direction of the Director General.

Recently approved, but not yet implemented, is a regulation to permit the hiring of government attorneys to enforce collection of delinquent taxes.

(2) Revenue Increases

(a) Income Taxes in 000's of Colones

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Est.</u> <u>1968</u>
	49,534	56,504	76,985	83,373	96,270	114,000
Percentage increase		14.1%	32.7%	8.3%	15.6%	18.4%
Cumulative Increase 1963 to 1967					94.6%	

(b) Gross National Product in Millions of Dollars

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
	510	549	591	624	671
Percentage Increase		7.7%	7.6%	5.6%	7.5%
Cumulative Increase 1963 to 1967					31.6%

(We have analyzed income taxes only because there have been relatively few substantive changes over the years, and because they represent an important segment of tax collections. If we were to analyze total collections, distortions would appear due to the passage of new taxes such as "Consumption and Sales").

Cumulative increase in income taxes is three times the cumulative increase on the GNP, 94.6% and 31.6% respectively as shown above.

(c) The first Tax Technician was assigned to San José in September, 1964. Subsequently additional technicians were assigned. The maximum number of full-time technicians never exceeded three persons. In the four

effective years of work, discounting 1964, income tax collections rose 101.8%, assuming the estimated figure for 1968 is correct. By contrast the four years preceeding the assignment of technicians, collections increased 52.2%.

The increase of 101.8% referred to above was not due to an abnormal inflation factor or a devaluation of the colon (which has remained relatively stable over the years.)

(3) Collection Efficiency

- (a) During the four-year period that the technicians have been assigned to San José, the operating budget for the office Direct Taxes increased from ₡6,155,147.00 to ₡8,603,705.00 an increase of some 2.5 million colones representing a percentage increase of about 40%. There were undoubtedly some increases and decreases which changed the original budgetary figures but reports on budget execution are not available. The increase of 2.5 million colones must be evaluated against the increase in income tax revenues for the same period which was 58,5 million colones.
- (b) In the area of delinquent tax collections there has been a steady increase in production as follows:

Income and Property Taxes Only

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u> ★ 1st 6 months
Cases closed	1,158	2,408	4,072	2,261
Collections in Thousand of U.S. Dollars	694	912	870	363
Percentage Increase in Revenue over Prior Year	15.1%	31.4%	-(4.7%)	16.7%
Percentage Increase in Cases Closed	-(45.9)	108.0%	69.1%	65.8%

★ Percentage increase are a comparison with 1st six months of 1967.

Although cases closed increased substantially in 1967 there was a small drop in revenue production. This was due to concentration on the part of the collection office on a large backlog of property taxes past due for small sums.

In the Audit area the following statistics are presented:

	1965	1966	1967	1968 (6 months)
Returns Examined	3,416	3,880	3,103	1,990
Increase or decrease over prior year	65%	14%	(19.6)	7.1%
Additional tax and Penalties (Thousand of Dollars)	1,164	1,753	1,149	559
Increase or decrease over prior year	20%	14%	(34.7)	(10.2)

The years 1967 and 1968 show drops in returns examined and revenue production. In the latter part of 1967 a new sales tax law was passed. In order to insure taxpayer compliance with this new law, auditors were sent into the field to canvas for and register the taxpayers. This same operation continued into the early months of 1968 hence the drop in case and revenue production. This new tax is expected to produce 80 million colones in tax for 1968 or over 10 million dollars so that the compliance measure taken was worth the effort. It is further expected that production in the last 6 months of 1968 will rise over 1967.

In the area of data processing many projects were established, designed for better organization of EDP, and to increase efficiency with the natural fallout of increased production. These projects are on a continuing basis. Some of the accomplishments are as follows:

1. The establishment of a document control system and processing steps in reconciling records of the Cadastral Office and the Land Tax Office. A quality control system was set up for all processing steps which eliminated lost documents and time lost in searching for these documents. A key punch-verification system was designed and implemented for computer printing of the reconciliation lists. Time consuming manual sorting of 160,000 documents was eliminated.

Many potential problems are anticipated and eliminated in setting up a reconciliation system. A maintenance system for cadastral records was recommended and in the process of being set up.

2. Recommended the establishment of a Control Group in the OTM (Oficina Técnica Mecanizada), Data Processing Office.

This system controls inputs and outputs between the dependent agencies and the OTM service agency. It also provides for the maintenance of a production schedule on priority basis for calculated output dates. This reduces the tendency of a computer to do the scheduling. Time is saved in elimination of control errors and there is conservation of computer time by logical arrangements of scheduling.

3. Recommended the establishment of an error resolution group in the OTM. This permits immediate isolation and correction of keypunch errors and eliminates the necessity of returning cards and lists to the Tax Office for correction, a time lag of several days. It has resulted in better inter-agency relations since the Tax Office does not have to correct the errors of the OTM.
4. Aided in the development of a simplified income tax return for the FY 1968. This resulted in benefits to:

- a. The taxpayer.

1. Data sequence is better organized.
2. Eliminated duplicate entries of various data.
3. Return easier to prepare.
4. Eliminated necessity in filling in name and address.

- b. Tax Office

1. All processing data both revenue and statistical is shown on the front page, eliminating the searching of the various pages and schedules of the return.

Space has been provided for the cedula number, a permanent number for future use in data processing and the establishment of a master file. Name and address changes are easily noted (since name and address are preprinted) to make necessary changes of office files.

- c. OTM (Oficina Técnica Mecanizada)

The front page contains all keypunch data. Data is arranged for minimum eye movement for keypunch operator.

5. Assisted in the development of an instruction pamphlet on the preparation of income tax returns.

It facilitates the preparation of the return by taxpayers. It is the first instruction booklet published in 5 years even though there have been many changes in the law during that period. Since it assists the taxpayers in the correct preparation of the returns it saves the time of the Tax Office in correcting errors and making taxpayer contacts.

6. Established weekly coordination meetings between the Tax Office and OTM. New ideas are discussed and agreements reached regarding implementation of new systems, corrections, changes, etc.

These are mutual understandings of each other's problems and results in a feeling of team spirit, different from the former Latin feeling of independence. All of which makes for better coordination, cooperation and better flow of work between the two offices.

7. Designed Master File System for income taxes

This system is expected to be fully operational in calendar year 1969. It will provide for:

The elimination of many time consuming processing steps.

The cedula number of the taxpayer will be used as an identification number.

Current statistical compilations eliminating double computer processing and controlling of returns.

Eliminate manual maintenance of returns and payment indices.

Eliminate hand re-sorting of returns.

Computer quality check and rejection of errors.

Block by block control balancing (small batches) so that when errors are discovered they are isolated by block. Corrections will involve re-running small batches rather than running the complete file.

Computer reject of individual errors and re-input only error corrections instead of 100% of the records.

Redesign of keypunching eliminating many keypunch strokes per document.

Merging several separate files into one Master File eliminating many time consuming, computer runs and potential control errors.

Maintenance of taxpayer accounts on Master File Maintenance of complete Taxpayer history on Master File.

Mail out of taxpayer error notices and notices of overpayment.

Eliminate necessity of taxpayer contacts and visits to the office.

Pre sort mail-outs to reduce backlogs in the post office.

Monthly mailout of bills during filing period to reduce final processing peak of 100% mailout in December.

Better documentation of specifications and control over their issuance.

Taxpayer account balances computer calculated.

Eliminate manual calculations and posting of account balances on taxpayer account cards. This will save 1/3 of time in posting operation. Will reduce search time while account cards are out of file and in posting area. Will reduce calculation errors.

The above are specific projects and programs. Daily advice is furnished by the data processing adviser to simplify processing operations and resolve problem areas.

Other improvements realized as a result of the joint effort of the Direct Tax Office and the Tax Team are as follows:

1. Delinquent accounts are now regularly certified to the Oficina de Cobros (Collection Office) and collection action taken.
2. Improved facilities for attending the taxpayer have been installed in the Tributación Directa, (Direct Tax Office).
3. An Office of Public Information has been established which has considerably stepped up dissemination of information to the taxpayer.
4. Eighteen persons in the Tributación Directa have received training in the United States in various phases of Tax Administration.
5. Thirty auditors of Tributación Directa have received training in tax law and auditing techniques.
6. Improved management concepts have been adopted, achieving better delegation of authority and improved internal communication with the Tributación Directa.
7. Organization and Methods examiners have been trained and an O&M Staff set up to study improved processing methods.

8. A group of Asistentes Fiscales (Collection Officers) was established to collect delinquent accounts through pre-judicial processes.
9. An office of Planning and Systems has been established to provide the Director General with a mechanism for improved planning and control of all the functions of the office.
10. A Legal Office has been established in the Tributación Directa to provide for more efficient and uniform application of the tax laws and regulations.
11. The Income Tax Department has been completely reorganized to achieve several objectives:
 - a. The efficient integration of administration of the new sales tax law with that of the income tax.
 - b. The rapid audit of income tax returns through office audit methods.
 - c. Improved program planning to achieve balanced economic and geographic coverage within manpower resources available.
 - d. Improved technical accuracy and uniformity of field audits and greater taxpayer receptivity to proposed audits through the functioning of a review staff.
 - e. Improved resolution of taxpayer's appeals through establishment of an appeals staff.
 - f. Improved management and supervision of the income and sales tax functions. Improvement efforts are reflected in the continually increasing tax revenues secured by the Direct Tax Office. Income tax collections, for example, have risen as stated above 101.8% from 1965 to 1968.
12. A group of 7 systems analysts were trained in the design and implementation of data processing system. Most are now leaders in the field of Data Processing, either for the Government or for industry.

(3) (c) Yes, as evidenced in (3) (a) above.

(4) Equitable application of revenue laws

(a) Costa Rica has for many years relied on customs receipts for a large portion of its revenues. However, with the desire on the part of the GOCR to

develop the country, they have provided various incentives for industrial development. This has caused a drop in customs receipts and in order to secure additional revenues, a sales tax law was passed last year. With the passage of this law, an inordinate and disproportionate amount of administrative effort was employed in implementing the sales tax. This is quite natural for any new law.

Decisions as to where to concentrate administrative effort in enforcing of any of the tax laws is based solely on practical "where needed" considerations. Generally every effort is made to concentrate the limited technical personnel in those areas which appear to be most productive and those which will give the greatest lift to voluntary compliance on the part of the taxpayers.

- (b) Costa Rica has had a withholding tax system on wages since 1954 and an estimated tax system for those taxpayers not subject to withholding since 1962. The new proposed income tax law would provide for the non-filing of tax returns for those taxpayers who only have wages subject to withholding. This would result in a small benefit for wage earners who would be relieved from filing a return but will result in large savings of manpower in the tax office.

The new proposed income tax law would withhold taxes on income received from Costa Rica by non-resident aliens. This would include income on interest, rents, dividends, etc. Dividends, on the other hand received by residents of Costa Rica are not taxable.

- (c) There are no visible evidences of general corruption in revenue administration. Very recently an auditor was discharged for soliciting a bribe from a taxpayer.

- (d) Progress has been made in the area of identifying ^{avoiders} and evaders but such progress is sporadic and spotty due to insufficient personnel. In November, 1968 teams of Mobile Auditors were sent to the major cities of Costa Rica outside of San José to check on taxpayers compliance. This had not been done for several years. In 1968 some 20 taxpayers who had not paid over sales tax for which they were responsible were threatened with closure of the business if they continued in default. This threat took the concrete form of an auditor visiting the taxpayer accompanied by a member of the Guardia Civil, as required by law, and giving the taxpayer the option of paying the tax or having his business closed. In all cases the taxpayers paid the taxes due. Although the following is outside the reporting period it is of significant

ance to note that in January 1969, 48 business establishments were actually closed for non payment of sales taxes. In all 48 cases, the taxpayers paid after the closures. Projects for intensifying efforts in this area are included in the work plan for calendar year 1969. The Director General proposes to have special drive against receivers of rental income and those engaged in financial transactions. He believes that there is substantial unreporting of income in these areas.

(5) Public Support

- (a) The Direct Tax Office has a Publicity Division which issues publicity releases on the activities of the tax office. In addition the Director General, the Minister, and Vice-Minister give personal interviews to the press on new and proposed laws procedures, expected revenues, and on every phase of tax policy and administration. Practically every day there is a news story on taxes in at least one of the newspapers. All of this helps acquaint the taxpaying public with the efforts of the administration. Publicity given to the project cited in (4) (d) on tax evaders certainly gains the public's respect.

On balance press relations are very good.

- (b) A program of taxpayer information exists whereby taxpayers may obtain information and rulings related to their personal problems. Wide publicity is given to filing deadlines, requirements to file, etc. A new instruction booklet was published in 1968, the first in five years. The income tax return was redesigned for 1968 to make it easier for the taxpayers to complete and to process by the tax office. The number of returns and collections have increased steadily over the years.