isw=22108

1/13/78 ~~AB~~ ~~SG~~ LA/DP, M. Brent
3917
N.S.

COMPLETION REPORT

(AIDTO Circular A-268 dated 7/7/77)

FISCAL POLICY AND MANAGEMENT PROJECT

September 1, 1975 - September 30, 1977

USAID/URUGUAY - IRS/PASA

Best Available Document

FISCAL POLICY AND MANAGEMENT PROJECT

COMPLETION REPORT

A. Background

The Fiscal Policy and Management project was initiated on September 1, 1975 with the arrival of a full-time technical advisor. The technical assistance provided under the project was requested by the GOU to enhance its capability to analyze and formulate fiscal policies and to upgrade management efficiency.

In Fiscal Policy, an A.I.D. contract advisor periodically worked with counterparts in the Office of Planning and Budget (OPP), now Secretaría de Planeamiento, Coordinación y Difusión (SEPLACODI). The objectives to be achieved were: to improve the capacity of counterparts responsible for formulation of fiscal policy, to analyze, formulate and evaluate fiscal policies and programs, to identify emerging fiscal problems and to evaluate and monitor fiscal performance.

In the management area the full-time advisor, supported by other TDY technicians, worked with the Director of the Tax Agency, with his immediate staff and principal managers to upgrade their management capability. By providing insights in planning, staffing, organizing, directing and controlling, management was prepared to function as effective and equitable administrators of the country's tax laws. Operational personnel and technicians also received on-the-job training in modern ADP technology and were assisted in implementing effective data processing systems.

B. Summary of Services Performed

1. A.I.D.

a. Fiscal Policy

In Fiscal Policy A.I.D. provided 3 man-months of technical assistance. The services were rendered by Dr. Arnold C. Harberger, who is an outstanding fiscal policy advisor. Total contract services cost to A.I.D. amounted to $18,013.

b. Management (Tax Administration)

(1) In management A.I.D. provided 25 man-months of long-term advisory services rendered by an IRS Tax Administration Advisor. A.I.D. also provided twelve man-months of short-term technical assistance by an ADP Systems Analyst Advisor. An instructor on ADP provided 6 weeks of training in systems analysis to 20 employees of the Tax Agency.

(2) The long-term technician provided the necessary coordination of project elements, was the liaison between the GOU and USAID officials and prepared written reports as required including periodic progress and evaluation reports on the project. As the generalist, the tax advisor assisted the Director General on all phases of tax administration, giving particular emphasis toward improved administration of the Value Added Tax (VAT) and the Land Productivity Tax (IMPROMI) through

the institutionalization of effective management systems and procedures.

(3) A short-term Systems Analyst Advisor assisted counterparts in developing and implementing ADP applications. The technical assistance was directed at making better use of computer facilities in the administration of taxes. The applications developed and implemented were designed to process data more efficiently and provide better control over taxpayers and timely follow-up of delinquents.

(4) An IRS instructor on ADP provided 6 weeks of classroom training to 20 employees of the DGI. The training was directed at improving systems analyses capability. A workshop type setting permitted practical application of techniques learned on actual work problems.

c. Estimated cost of project to USAID/Uruguay.

Item	FY 76	I.Q.	FY 77
Long-term Advisor	51,700	13,900	72,200
Short-term Advisor	35,200	11,100	22,400
Participant Training	16,700	-0-	-0-
Other Costs	2,700	-0-	-0-
	$ 106,300	$ 25,000	$ 94,600

2. Host Country

a. The GOU provided counterpart technicians with office space, materials and the services of a combination secretary and administrative assistant for the entire period of the project. Counterparts worked with advisors as required and management generally contributed the time necessary to keep the project moving.

b. Estimated total GOU cost for total project was:

Item	FY 76	I.Q.	FY 77
- Contribution of Management time, 7 m/m $1,000 per month	3,000	750	3,000
- Counterpart input 197 m/m at $400 p/m	29,000	10,000	47,400
- Participant training - salaries and travel cost	5,000	-0-	-0-
- Office space and secretarial/Admin.Assist. during 25 mos.	3,400	700	3,600
	$ 40,400	$11,450	$54,000

3. International Organization

The OAS provided 10 man-months of technical assistance during the first few months of the project, for an approximate cost of $25,000. The OAS advisor assisted the DGI to establish a taxpayer master file, using ADP technology.

C. Status of Completion of Project Elements

Input for this project consisted of technical assistance of the type and duration described above. The required number of man months of service and of the type stipulated in the agreement were performed during the life of the project.

D. Summary of Accomplishments

The stated project purpose is to upgrade the capacity of the DGI to effectively administer tax collection systems. Evidence of a successful project would see in place:

- Capability to identify non-filers
- Systems for detecting evaders
- Management information systems that would provide timely and relevant statistical data for enforcement purposes
- Improved systems and procedure that resulted in increased revenue collections of IVA and IMPROME
- Applied concepts and policies designed to reduce time lag between tax liability and payment.

The Project Appraisal Reports of February 1976 and April 1977 contain a detailed description of accomplishments which clearly indicate that the project was highly successful in achieving the stated purpose and in some respects the accomplishments were not limited to the areas defined in the project paper. The procedures and applications developed reached across the board to affect most taxes and as a consequence, a general overall improvement in tax administration can be seen.

The DGI now has the capability and the necessary expertise to carry out delinquency check programs, identify non-filers and detect evaders. Combined mechanical and manual procedures were developed for IMPROME. For IVA, complete ADP applications were developed and implemented. The programs provided leads that yielded 532 delinquent value added tax returns in 1977. A check in 1977 for 1975/76 Land Productivity Tax returns yielded 206 additional tax returns.

Considerable progress was made towards institutionalizing mechanized delinquency c heck programs and the concept of maintaining ADP files of pending investigation for control and follow-up purposes.

Advanced statistical data on revenue collections of principal taxes is now generated within three days after receipt. Final revenue receipt figures are prepared within 30 days. Prior to that, advance figures would delay 30 days and final figures from 90 to 120 days. Other statistical data output is included as part of each application designed.

Revenue collections in 1976 compared to 1975 increased 14% in real terms. Revenue from Land Productivity Tax increased 72.6%, Value-Added Tax 31.4%, Business Profits tax 40.1% and Tax on Banking Transactions increased 11.3% during the same period. Revenue collections as a percent of GDP increased in real terms from 11.3% in 1975 to 12.6% in 1976.

The time between incurring tax liability and tax payments has been substantially reduced by discontinuing the policy of permitting taxpayers to pay taxes on an installment plan protracted over an extended period of time. Late payments are now subject to a 20% penalty plus a 5% per month interest charge, thereby discouraging taxpayers from having outstanding accounts with the D.G.I.

E. Fiscal Performance Analysis

1. As of August 30, 1977 Central Government Revenue collections as a percent of expenditures showed a 2.5% surplus. Many factors enter into the picture making it difficult to pinpoint the reasons for the excellent fiscal performance. Simply stated, on the credit side, revenues exceeded projected collection figures due to a combination of changes in the tax laws and to improved administration, and on the debit side, expenditures although not reduced, were maintained at slightly above the 1976 level. In tax administration several changes occurred that helped improve collections.

2. To begin with, the D.G.I. was reorganized into a more modern, flexible organization. With its new functional structure, the new service reaches all taxpayers and monitors compliance of all internal taxes. Under the old regime each office was responsible for certain specific taxes and operated with certain autonomy even though all offices were responsible to the Director General.

2.1 Since its major reorganization in 1975 several other minor structural changes have been made to accelerate work flow and improve production and quality controls over keypunching operations and over programming and organization and methods functions. In addition to the immediate benefits derived, the D.G.I. now has a strong organizational base that will be very effective in future years.

3. Two very important policy decisions were made that had immediate benefits and will affect the attitude of the taxpayer in the future. One policy decision was to abandon the annual practice of granting tax amnesties. Such a practice was not only an open admission that tax administration was not functioning but it also fostered non-compliance. Amnesties were a reward for the delinquent taxpayer and a penalty for the taxpayer who paid timely, thereby fostering further

money to run his business, creating unfair competition and due to inflation, by paying at the end of the year, was in fact paying with cheaper pesos.

3.1 The second policy decision was to take the D.G.I. out of the credit business. No longer does the D.G.I. enter into deferred payment agreements except on very special cases approved by a board. After a careful study of the financial statement, the Director General and two other Directors must all approve the installment payment request.

3.2 This policy has had a double positive effect. It provides tax money currently and removes the possibility of taxpayers becoming future delinquents which is a severe problem in "Facilidades" due to a weak follow-up program. Another positive aspect is that eventually, the "Facilidades" workload will disappear and increase available computer time by about 30%.

3.3 Increased interest rates and penalties no longer make "facilidades" attractive for those seeking new agreements and have accelerated collection of existing accounts. The interest rate was increased from 4% to 5% and there is a 5% penalty for failure to make an installment payment on time.

4. Additional measures that engendered compliance in addition to the high interest rate of 5% which made the D.G.I. competitive with the banking industry were the following provisions for stiffer penalties for late payments:

4.1 Failure to pay tax when due, carried a penalty of 10% prior to 1975. As of October 1, 1975 the ad-valorem penalty was increased from 10% to 15% and to 20% as of January 1, 1976.

4.2 Any penalty assessed against a taxpayer which is not paid within 30 days from the date of assessment is subject to a 20% ad-valorem penalty.

5. Three indirect methods of controlling compliance were also implemented that helped to improve tax administration.

5.1 Certificates of Solvency are issued to taxpayers each year valid for 6 months and renewable for an additional 6 months. Taxpayer cannot conduct any business with an entity of the central government unless he presents a current solvency certificate.

5.2 IMPROME taxpayers who fail to file returns with the D.G.I. cannot obtain a permit from DINACOSE to transport livestock. This measure effectively limits a taxpayer's market for his product and forces him to file returns with the D.G.I.

5.3 A taxpayer delinquency register (Registro de Morosos) was established by the D.G.I. Much publicity was given to this measure which was to severely limit a taxpayer's commercial activity once placed on the register. Though only partially implemented at this point, the publicity it received has had a salutary effect on compliance.

6. Of all the measures taken probably the most significant was the decision to establish rigid and timely controls over the most important tax contributors. Thus, a special unit was created referred to as CEDE "Control Especial de Empresas". CEDE's function is to provide special taxpayer service to large taxpayers and to control each taxpayer's filing and payment activity.

6.1 Taxpayers under CEDE control were, in 1975, those with gross income of N$1,500,000. Later in 1976 that amount was reduced to N$300,000 so that approximately 1,200 important taxpayers now come under the control of CEDE and contribute about 70% of collections due from the Value Added tax, Business Profits Tax, Wealth Tax and Tax on Banking Activities.

6.2 Additionally, the monthly filing for CEDE taxpayers has been simplified by allowing taxpayers to pay the taxes referred to in 6.1 above on one return. Unlike other taxes, in the case of taxes controlled by CEDE, the return becomes the payment document thereby eliminating the problems of a debit and credit match to identify delinquent taxpayers.

7. Collection of revenue has been accelerated by a measure that provides that the business profits tax be paid on a more current basis. Prior to the change, taxpayers were required to pay 25% of the tax on the 8th month of the tax year and another 25% on the 12th month of the tax year, with a final payment of the difference being made on the due date of the return, 4 months later. Now, taxpayers are required to pay 8% of the estimated tax each month. Though the computation of the advance payment differs for large taxpayers, it essentially works out to about the same as for small taxpayers.

8. This year, 1977, IMPROME was required to be filed and paid on the regular due date, April 30, 1977, whereas in 1976 payment was deferred until the last quarter of the year. Therefore, comparative collections figures will reflect an extremely high increase, 627.5% current pesos for the first three quarters but end of the year figures will show a more realistic increase.

9. Audit and canvassing activities by audit and collection groups have also been stepped up. Straight audits yielded N$ 13,993.320 during the first six months. Canvassing activities that saturate the 17 zones of the city are designed primarily to alert taxpayers of the D.G.I's constant presence and to simultaneously spot non-compliance.

10. Finally, probably the most effective measure to foster compliance is the D.G.I.'s no nonsense attitude toward withholding agents. The D.G.I. now looks beyond the business entity in search of the responsible individuals to collect overdue taxes. The atmosphere of a not so indulgent attitude towards wrongdoers by the quasi-civilian military administration is another inducement not to evade the payment of taxes.

F. Further Inputs into Project

No further inputs will be provided by others.

G. Further Monitoring and Reporting

Since the output was limited to technical assistance of an ongoing operation