ANNEX C

Evaluation Report of the Tax Administration and Reform Project

As provided for in the FY 1975 Tax Administration and Reform Project Agreement, an in-depth project evaluation was carried out to determine the rate of progress and accomplishments to date and to make a determination as to a possible continuation of the tax advisory assistance to the Uruguayan Tax Office.

In preparation for the evaluation, the USAID Mission sent to the Director General of Taxes a letter with a list of relevant questions on the two major areas of work carried out under this project: a) management and organization and b) collection. The written answers served as part of the basis for the evaluation and also afforded Mission an opportunity to pose additional questions at the meeting to expand and clarify points, as required.

Date of Evaluation: June 2, 1975. The evaluation meeting was held at the Ministry of Economy and Finance and the participants were as follows:

Cr. Valentín Arismendi, Sub-Secretary of Economy and Finance,
Cr. Raúl Xavier, Director General of Taxes
Mr. Leonard J. Horwitz, AID Representative
Mr. Jerome Hulehan, Program Officer, and
Mr. Ivan Trabal, Tax Team Leader.

The evaluation results are as follows:

A. Management and Organization

1. A task force was appointed in early February to plan a reorganization, by function, of the Tax Office. The group developed a proposed organization chart with five major functional divisions; audit, collection, planning, legal counsel and administration. The DG approved the plan. Various DGI circulars were issued creating the divisions of audit, collection, planning, legal counsel and administration. With the issuance of these circulars, the first phase of the reorganization has been completed. The implementation phase is already under way. The consolidation of the audit division has been completed and the division is presently operational.

The forthcoming GOU Annual Budget Review (Rendición de Cuentas) will include legislation to legally sanction the administrative steps authorized by the Director General (DG). It will also include the following provisions:

(a) the present functions and responsibilities of the various current directors will be taken away and reassigned to the Director General who will have authority to delegate functions and change personnel as needed.

(b) The Office of Income will become the Office of Collection and the Office of Inspector General will be changed to the Office of Audit. The Offices of Internal and Indirect Taxes will be eliminated and, instead, the Offices of the Legal Counsel and the Office of Systems and Support (Planning) will be created.

According to the Sub-Secretary and the Director General, no problems concerning these measures are anticipated in the Council of State and expeditious approval is expected.

Due to the initiative of Sub-Secretary Arismendi, arrangements have been made to house the Collection Division in newer and larger quarters expected to be available within three months. Long-range plans exist to house all the Tax Office in the premises now occupied by the Central Bank. These are expected to be available within the next twelve months.

2. Another task force was appointed by the DG to study the existing collection system and also the creation of a consolidated master file of taxpayers in line with the needs of the new organization. The work of this commission has been temporarily delayed due to the work on the reorganization.

3. On May 1, the DG appointed a new Director for the Division of Data Processing. The OAS advisor, is working full-time with the new Director to help improve the quality and timely submission of revenue data so as to obtain more accurate and timely statistical information on all taxes, specially on IVA and IMPROME.

4. The design and format of a single-payment document has been approved and implementation is expected by the end of September 1975. Also, as of this date, the Bank of the Republic will no longer receive tax payments. Due to the poor quality of the documents, the delays in processing by the Bank and the late receipt by the Tax Office, a decision has been made for payments to be made directly to the Tax Office.

The adoption of a single-payment document and the direct payment of taxes should help improve the quality and reduce the time required for processing. This in turn will speed up the availability of statistics for management and other purposes.

5. Training courses will be given for approximately 350 employees to familiarize them with the new organization. Additional courses will be given for technical personnel including courses on IVA and IMPROME. Inspectors recently assigned to the enforcement of these two taxes will be given priority for participating in these courses.

6. The study by an IRS technician of the Office of Internal Taxes, which administers the fuels, alcohol, beverages and tobacco taxes, was initiated in March. He has been studying the existing administrative controls and visiting the breweries, wineries and the alcohol and tobacco plants. A report is being prepared and translated which contains recommendations for legislative changes and the tightening of administrative controls.

Implementation of these recommendations is expected to begin immediately after the report is approved by the Tax authorities. The technician has recommended that a group of Uruguayan tax officials visit Venezuela to observe and learn about the controls used in that country for the administration of fuels, alcohol, beverages and tobacco taxes. Arrangements are being made through the Interamerican Center for Tax Administrators (CIAT) for this visit which is now planned for early July.

B. Collection

1. The new organization chart approved by the DG contemplates the creation of a collection division (see DGI Circular N° 92/75, dated May 15, 1975).

The major functions to be performed by this division are: receipt and accounting of revenues, processing of tax payments and returns, creation and maintenance of a computerized, consolidated master file of taxpayers, securing of delinquent returns, controlling installment accounts, etc. Also the division will have a unit to provide information and assistance to taxpayers.

Because of its importance, this division will be the first one to be relocated. The new quarters will be remodeled so as to facilitate better service to the taxpayers.

2. The study of the installment accounts section is practically completed and a report will be issued by the end of July.

Some steps are already being taken to tighten controls and reduce the number of accounts and to shorten the length of the agreements.

The DG has adopted a policy of not granting installment payment privileges upon request but to require complete financial statements to properly determine if an agreement is justified. The amounts to be paid and the length of the agreement will be determined by the financial condition of the taxpayer. A course for employees of this unit on financial analysis and interpretation will begin shortly. A policy of not granting installment privileges, except on hardship cases, on the payment of trust-fund taxes, has also been adopted.

According to Sub-Secretary Arismendi, no tax amnesty is included in the "Rendición" and none is contemplated. Readjustable tax rates on back taxes owed will not be necessary because of the policy of no tax amnesties, the recent increase in the rate of monthly interest due on back taxes from 4 to 5% and the expected improvements in the administration which will, according to the Sub-Secretary, make delinquency more costly, when the anticipated lower rate of inflation is taken into account. These considerations, together with the more stringent requirements on applications for installment payment privileges should make delinquency less and less attractive.

3. Regarding increased enforcement, a unit of 25 inspectors have been created to follow up on non-filers and taxpayers in default of their installment agreements.

In the offices of the interior, excess personnel resulting from the elimination of the stamp tax and the reorganization, will be assigned to enforcement functions. Also, some small offices in the interior will be eliminated and others consolidated. The result should be improved revenues.

4. In the area of public relations and taxpayer education, a monthly bulletin is now being published containing the latest laws, decrees, administrative rulings, etc. The bulletin is given maximum distribution.

Two Directors have had press and TV conferences announcing the policy of increased countrywide enforcement.

Plans are underway to acquaint taxpayers with the reorganization and what it means in terms of contacts, services and attention to them. The establishment of a unit of information and assistance to the taxpayer in the Collection Division was mentioned above.

It was the consensus of the evaluators that the progress achieved thus far speaks for itself and justifies the continuation of technical assistance to the Tax Office. It was agreed that assistance should be concentrated on the key areas of IVA, IMPROME and excise taxes and reorganization.

USAID evaluation of overall GOU economic performance

With the adoption of basic economic reform policies and laws which led to the approval of an IMF Standby Agreement, the GOU has taken the first significant steps to stimulate a stagnant economy and help bring about recovery and development. The adoption of these measures signifies that a GOU economic management capability is being developed which at some future date, given proper assistance and nurturing, will be capable of standing on its own, consequently bringing full recovery and providing a base for a take off.

The various economic measures taken have been reported and need not be detailed here. Suffice it to say that the IMF Stand-By Agreement is evidence that the GOU is headed in the right direction.

An effective tax administration system is one of the essential components of a properly managed economic system because of its overall economic impact on all aspects of economic activity and the GOU is taking steps to improve its system.

Plans to reorganize the Tax Office have been completed and approved and implementation is under way. Personnel have been reassigned and budgetary provisions for implementing these reforms have been included in the GOU forthcoming annual Budget Review.

The Tax Administration and Reform PROP identified improved economic management as the sector goal and an efficient tax administration system as the project purpose. The long string of economic measures reported clearly indicate a significant improvement in the management of the economy. This evaluation of the tax administration project equally indicates a meaningful rate of progress towards achieving a modern and effective tax administration system capable of fulfilling the demands made upon it by the GOU economic managers.