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**DEPARTMENT OF STATE**

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CLASSIFICATION

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FROM - LA P42

SUBJECT - Noncapital Project Paper (PROP)  
Tax Administration Project 511-11-720-062.2  
REFERENCE - A.O. 1025.1

Country: COLIVIA

Project No.: 511-11-7 9-062.2

Submission Date: April 25, 1969

Original X

Revision No.     

Project Title: TAX ADMINISTRATION

U.S. Obligation Span: FY 1964 through FY 1972 <sup>5</sup> ← FY 75 per PBS 5-1 dtd 7-23-69

Physical Implementation Span: FY 1965 through FY 1976 ← FY 76 per Ibid.

Gross life-of-project financial requirements:

U.S. dollars	\$1,325,000
U.S. owned local currency	94,000
Cooperating country cash contribution	1,130,000
Other donor	<u>270,000</u>
<b>Total</b>	<u><u>\$2,819,000</u></u>

Revisions this page  
per letter 8-12-69  
Kolar - Durman

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PAGE 1 OF 9

DRAFTED BY: <u>KFai farak may</u>	OFFICE: <u>PAID</u>	PHONE NO.: <u>365</u>	DATE: <u>7/2/69</u>	APPROVED BY: <u>Edward W. Coy, Director</u>
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AID AND OTHER CLEARANCES: <u>PAID, HIRLAUM</u> <u>PP, Kolar</u>	<b>UNCLASSIFIED</b>	<u>ADD, HIRLAUM</u> <u>ADD, COBrister</u>
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CLASSIFICATION

## A. SUMMARY DESCRIPTION

### 1) Need and Justification for Project

In the past, efforts have been made by USAID and the Government of Bolivia to undertake certain administrative and fiscal reforms. The importance of such reforms as a pre-condition to economic development in Bolivia has been recognized not only in the goals of the Charter of Punta del Este, but also specifically by the Ad Hoc Committee (Nine "Wise Men") of the Organization of American States which evaluated the Bolivia Ten Year Economic and Social Development Plan. In May 1962, this committee submitted its findings to the Government of Bolivia under the title "Measures Designed to Speed Development in Bolivia under the Alliance for Progress." The resulting administrative and fiscal reforms agreed upon fall in four main categories: (1) greater government efficiency; (2) increased government revenues; (3) improved control of expenditure levels and (4) elimination of the government deficit.

While some Fiscal Reform work was previously done by USAID in the advisory area, particularly with respect to increasing revenues, it was only in 1967 that a sufficient number of USAID technicians were available to move forward in the implementation of other recommended reform measures.

The Tax Administration project, started in 1964, is particularly essential to reform categories (2) and (4) above, since internal revenues constitute approximately one-half of GOB's income. This source offers the greatest potential for revenues increases because (1) there is general acknowledgment of considerable non-compliance with tax laws in Bolivia and (2) these revenues should logically increase with economic growth. Not only should the need for direct assistance to the GOB by the U. S. for budget financing decrease as revenue increases are realized, but hopefully there should be a sufficient current account surplus to finance new activities necessary for Bolivia's development.

### 2) Project Goals

Project goals are to assist the GOB in improving the administration of tax laws through (1) improved filing and collection procedures, (2) increased and improved enforcement activities, (3) improved management, and (4) extension of enforcement activities to the interior. (On the latter point, it is interesting to note that 70-75% of Internal Revenues are presently collected in La Paz where only about 10% of the population lives. Even assuming, as do some economists, that 50% of the taxable economic activity of Bolivia takes place in La Paz, evasion in the interior would appear to be some 50% greater than in the La Paz District.)

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### 3) Minimum Levels of Achievement

While overall goals are to have the GOB realize increases in internal revenues on an average of 15-20% per year for the life of the project, minimum goals are (1) to create a decreasing cost trend to the Bolivian Internal Revenue Service for collecting each tax peso; (2) to have internal revenues become a more significant portion of GOB income; (3) to continue an upward trend in the number and quality of direct enforcement personnel; (4) to show improvement in management and supervisory practices; and (5) to show increases in the share of the tax burden borne by the interior.

### 4) General Approach and Plan of Action

USAID inputs will consist of funding an IRS/PASA consisting of 3 full-time advisers with some TDY assistance, as well as the financing of some participants. A local currency loan of approximately \$100,000 is planned to improve physical facilities for most GOB internal revenue offices plus an additional \$100,000 in U. S. equipment procurement ~~tax~~ grants for these offices.

GOB inputs will consist principally of the provisions of office facilities and secretarial services for the Tax Team, necessary GOB manpower to execute projects and occasional commodity support that normally would be undertaken in the interests of good administration.

Other donor activities (the CAS/EID financed Tax Policy/Registration advisory group), began work in FY 67. Their assistance is directed primarily at the re-codification of Bolivian tax law to provide a more articulate body of law and to increase the potential for administrative efficiency in the law's enforcement. USAID advisers will continue to coordinate their activities with this other advisory group and the Mission will encourage their continuance on the project as long as tax policy assistance appears to be required (at least through FY 71).

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NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Mo/Day/Yr

Table 1  
Page 1 of 2  
Country: BOLIVIA

PROP DATE: April 25, 1969  
Original: X  
Rev. No.:  
Project No. 511-11-220-022.2

Project Title: TAX ADMINISTRATION

LADP 229

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Fiscal Years	Ap	L/C	Total	Cont <sup>1/</sup>	Personnel Serv.		Participants		Commodities		Other Costs	
					USD	CENT. US	CONT	CONT	Dir	CONT	Dir	CONT
Prior through Oct. FY 68	G	G	449	—	36	332	—	49	31		1	
Oper. FY 69	AG	G	157	10	—	135	10	3	2		10	
Subs. FY 70	AG	G	194	—	—	140	—	4	50		—	
B + 1 FY 71	AG	G	194	—	—	140	—	4	50		—	
B + 2 FY 72	AG	G	106	—	—	100	—	6	—		—	
B + 3 FY 73	AG	G	100	—	—	100	—	—	—		—	
All Subs.	—	—	125	—	—	135	—	—	—		—	
Total Life	AG	G	1,325	10	36	1,069	10	60	133		11	

<sup>1/</sup> Memorandum (nonadd) column.

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Using the suggested system, annual collections in La Paz should come up to \$b 8,000,000. In Cochabamba Annual collections could go up to \$b 2,000,000 compared with \$b 497,000 collected during 1969. The Real Property Section could control this tax. (See attachment No. 2).

Moreover, by this system Renta would be able to enforce Supreme Decree No. 09083 dated August 31, 1969. Despite the fact that this decree was approved 21 months ago, Renta still does not have the necessary forms to tap the valuable source of information established by this decree.

The same type of file can be used to control other taxes. For example, a file on the withholding tax would enable Renta to control those people presently working for embassies, technical missions, etc. The USAID/Bolivia agreement authorizes the Government of Bolivia thru the Ministry of Commerce and Industry (formerly Ministry of Economy) to audit all payments made by USAID from trust funds. Therefore, Renta could detail auditors to that Ministry and thereby obtain information on the wages paid to Bolivian nationals.

#### B. Vehicles

Due to failures in this system, taxpayers who want to pay license fees are prevented from doing so. A draft decree setting the rates to be paid by private vehicles was presented in May 1969 to the Ministry of Finance. The Department of Studies has yet to report on this proposal. As a result and for example, in Santa Cruz alone, approximately 300 private trucks cannot operate outside that jurisdiction due to their lack of licenses. The approval of this decree could bring approximately \$b 8,000,000 (see attachment No. 3).

#### C. Small Retailers

The Decree on small retailers, shopkeepers, artisans, etc. was repealed. However, the repeal was presumably not meant to do away with the revenues previously generated. Even in the absence at present of a law to regulate this group, the districts of La Paz and Cochabamba still continue to charge a small amount of money to register these types of business. On the other hand, in the district of Santa Cruz, there are approximately 600 small retailers ready to be registered but the lack of a legal provision prevents their registration. It must be emphasized that the main reason for the general opposition in Santa Cruz to use the "numbered receipts system" is precisely the fact that small retailers do not pay any taxes. Collection of sales taxes from this group should be commenced so as to pave the way for the "numbered receipts system" in that area, which could mean a revenue collection of approximately \$b 18,000,000 annually.

Table 1

Page 2 of 2

Exch. rate \$1 = \$S 12.00

Project No. 511-11-720-082.2

Fiscal Years	AID-controlled		Other Cash Contribution Cooperating Country	Other Donor Funds (\$Bquiv)	Food for Freedom Commodities	
	Local Currency US owned	Country owned			Metric Tons (000)	CCC Value & Freight (000)
Prior through Oct. FY <u>68</u>	40		400**	150		
Oper. FY <u>69</u>	12		146	30		
Endg. FY <u>70</u>	12		146	60		
B # 1 FY <u>71</u>	12		146	30		
B # 2 FY <u>72</u>	10		146			
B # 3 FY <u>73</u>	8		146			
All Subs.	—		***	—		
Total Life	94*		1,130**	270		

\* Trust Funds.

\*\* Includes both space and housekeeping services to the USAID advisory team and the increases in the GCB budget related to team's recommendations on staff, organization, etc.

\*\*\* Future years not shown as the GCB will continue innovations at FY 73 level or higher for an indefinite and non-quantifiable period.

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## B. SETTING

While it has not been possible to determine the degree of tax paying compliance in Bolivia, it is generally accepted that the percentage of compliance is low. This is due to the reluctance of taxpayers voluntarily to pay taxes and to the government's inability to develop an organization strong enough adequately to enforce existing tax laws. While progress has been made in recent years in increasing voluntary compliance and strengthening enforcement, much remains to be done to bring the organization to an optimum and to extend enforcement activities to the interior.

The public in general has the impression, with some justification, that tax monies are not always well accounted for and that considerable graft and bribery exist in the collection and enforcement of tax laws. Political instability has existed for many years. This has led to the instability of most governmental units (including Internal Revenue), and has resulted in the rapid turn-over of their personnel (three different Directors and two sub-Directors of the Internal Revenue Service in CY 1968). Obvious deficiencies exist in relation to underplanning of activities, inadequate supervision and managerial controls. Appointments to supervisory and management positions are frequently considered as status symbols and particularly in the past, little consideration was given to the qualifications of appointees. Once appointed, supervisors have frequently viewed their roles as being of a non-working nature and have given little attention to supervising and managing workers. Technical personnel have generally not been well prepared to undertake the professional duties required of effective enforcement personnel. Despite these problems, there seems to be a general desire for administrative improvements, with the apparent realization that the progress of Bolivia is dependent to a great extent upon improved efficiency in tax collecting and in enforcement.

## C. STRATEGY

### 1) General

Project strategy is to introduce GOB Tax officials to modern tax administration techniques and when appropriate, to encourage their adoption and to provide guidance in their implementation.

### 2) Method

Project objectives are to be achieved through analyses of GOB Internal Revenue operations to detect areas of weakness; to discuss these with

supervisors and managers; jointly to identify ways to overcome the weakness and to assist in the implementation of changes when appropriate.

Plans for improvement are to be discussed with and approved by top Internal Revenue management, but implementation is to be accomplished by and through personnel at the lowest levels on an "acceptance" rather than "mandatory" basis. Actual work including supervision, is to be accomplished entirely by GOB Internal Revenue personnel with guidance in appropriate instances, and follow-up to assist in resolving problems jointly, and intensive training in key technical areas.

### 3) Alternatives

(Alternatives to reaching project goals are not considered practicable.)

### 4) Cooperating Country Leadership

Bolivian Internal Revenue officers are receptive to advice. Therefore, continued support of this project is expected. Principal obstacles in the past have been acquainting new leadership with projects and their objectives. However, suggestions by the Tax Team are generally welcome.

### 5) Cross-Relationships

Because of interrelated objectives and functions, this project must be continually coordinated with other Mission projects, particularly those dealing with Fiscal Reform and Customs Administration. Tax Administration advisors will coordinate with the Fiscal Reform Team on revenue accounting; with the Customs advisor on various enforcement activities such as those dealing with the alcohol, tobacco, and beverage tax (since contraband in these areas affects collections of revenues assessed against locally manufactured products); and with CAS and Mission economic advisors on matters dealing with tax policy.

In 1967 an international organization was formed (Centro Interamericano de Administradores Tributarios) with AID/W and FTAS/W assistance which is financed through assessments against member countries. It is the purpose of this organization to develop a means by which Latin American countries can identify common tax administration problems and work jointly to solve them. Annual meetings and periodic seminars are held for this purpose. Tax Team advisors are encouraged to use this mechanism to assist in accomplishing objectives. GOB Internal Revenue officials have participated in all meetings to date, thus acquiring a better overview of Latin American tax collecting organizations.

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D. PLANNED TARGETS

Quantitatively, it is expected that Bolivia's internal revenue increases will average from 15-20% per year throughout the life of the project. (Since the project started in 1964, the increase in normal internal revenue has averaged 16.5% per year (unadjusted for price changes). However, including Gulf Oil tax payments, the average increase has been about 21%.) Qualitatively, the COB Internal Revenue will be expected to have an efficiently operating organization by the end of FY 1973 including:

(1) an effective audit organization capable of auditing a sufficient number of returns to assure substantial compliance by those filing returns throughout Bolivia; (2) effective filing and paying procedures minimizing taxpayers' time and effort in complying with tax laws; (3) a complete master file of taxpayers with adequate follow-up procedures to assure their timely filing; (4) adequate procedures for detecting non-filers not on the master file; (5) an effective inspection and internal audit unit to ferret out bribery and assist management in strengthening supervisory and managerial controls; and (6) an information unit that will keep the public adequately informed on tax matters.

E. COURSE OF ACTION

The course of action will involve assistance in three major areas: (1) Audit, (2) Collection, and (3) Organization and Methods. Descriptions of planned activities follow:

1) Audit

Plans include assistance in the development of techniques to provide effective means by which returns can be identified, examined and the correct amount of tax assessed and collected. While some progress has been made in introducing modern administrative techniques in these areas, much remains to be done in introducing refinements and in assuring their complete implementation.

Increases in the number of auditors are contemplated until a sufficient number of returns can be examined and enforcement actions can be taken to improve compliance with tax laws throughout Bolivia. The COB Revenue Service now has 70 auditors. This is an increase of 25% over 1964. The specific number of additional auditors required by June 30, 1973 will have to await definition by the Study for Measurement of Compliance (scheduled to start in 1973). However, it is reasonable to assume at this point that a 100% increase in audit staff would be a likely minimum. To the extent possible, the COB will be encouraged to fill these positions with retrained existing personnel rather than new hires in an already inflated public administration,

It is estimated that optimum levels of performance including a sufficient number of auditors, and dispersion of activities to the interior with complete integration of audit activities will be accomplished by June 30, 1973.

2) Collection

Assistance will be provided in developing new and improving existing programs to encourage taxpayers to file accurate returns on a timely

basis. This includes simplified filing and paying procedures, taxpayer assistance and proper accounting for revenues. Simultaneously, assistance in establishing effective procedures for identifying non-filers and taking appropriate enforcement action is contemplated. A complete master file, first on a district-by-district basis and ultimately for the entire country, is contemplated.

Substantial progress has been made in these areas in La Paz, but much work remains to be done to assure long-range success in its operation and in extending it to the remainder of Bolivia. Plans are to complete this work including the use of data processing equipment to the extent feasible by the end of CY 1972.

### 3) Organization and Methods

Assistance has been provided in a reorganization which includes functional units designed to overcome many of the problems confronting the Bolivian Internal Revenue Service, such as Inspection (integrity investigations), Internal Audit (management studies), and Public Information. However, final implementation is not expected until December 1969 after which assistance for developing effective programs in these three areas will be necessary as well as assistance for improving others. A complete integrated manual of operations is expected to culminate this phase of the project and should be completed by December 1971. Plans include previously mentioned ~~from~~ assistance for facilities and equipment. Improved management techniques including modern filing methods, records disposal, better utilization of space, etc. will be introduced as acquisitions are made. The expected date of completion of this phase is June 1971.

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