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Quarterly Report

February 2007 – April 2007

TAX POLICY & ADMINISTRATION REFORM (TPAR) PROJECT
EI SALVADOR

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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1. Executive Summary

USAID signed a Task Order with Development Alternatives Inc. (DAI) on July 23, 2005 to design and implement a program for modernizing and improving tax policy and administration in El Salvador.

Highlights for the quarter are listed below:

Activities Performed

1. Development of Current Account
2. Development of Taxpayer Registration System
3. Implementation of Call Center
4. Plan for the creation of the Legal Consultation System
5. Development of Data Warehouse
6. Implementation of new system for Return Processing
7. Development of vision documents for Dictamen Fiscal¹, Exogenous Information (Información exógena), Refunds (Devoluciones), Printing of Authorizations (Autorización des Imprentas)² and Document Tracking
8. Data procurement
9. Administrative Modernization Plan
10. Creation of the Supervision and Control Unit
11. Project of Cooperation with the Fiscalia General
12. Project of Customs Data Procurement and Cooperation
13. Project of Cooperation between the DGII and the CNR
14. Assessment of and Recommendations for the Collection office: Delinquent accounts control
15. Plan for the creation of the Fiscal Compliance Call Center (Stopfilers control)
16. Visit to the DELL Call Center
17. IT Project follow-up and demo meetings
18. Development of a proposal for Tax Policy activities

Quarterly Results

1. **Development of the new current account system:** TPAR modified the vision document, and continued to develop the new current account system.

¹ Dictamen fiscal is a special procedure in which a CPA evaluates the taxpayer's financial statement and submits an evaluation to be approved by the tax administration.

² Autorización des Imprentas refers to the printing shops that are authorized by the tax administration to print invoices for taxpayers.

2. **Development of the taxpayer registration application:** The TPAR project completed development of the DGII's new taxpayer registration application during this quarter.
3. **Implementation of the Call Center system:** The development of the Call Center system was finished, and began operations with 5 operators. The TPAR project has recommended that 20 operators be hired to effectively staff the new Call Center. The DGII has nominally agreed, but has yet to take steps to hire the remaining 15 staff.
4. **Plan for the creation of the Legal Consultation System:** The TPAR project will develop a web-based system for the legal department that contains all the laws, rulings and court decisions regarding tax matters. Once this system is finalized, it will be made available to the different DGII areas and taxpayers through the DGII website.
5. **Development of the Data Warehouse (DWH):** The project determined the algorithms to be created in the DWH and the new economist performed the necessary investigations to support the numbers included in the algorithms. The TPAR project is still waiting for the DGII to provide data to populate the system.
6. **Implementation of the system for returns processing (Digitalization):** In January, the project finished the digitalization system; implementation began with the digitalization of forms F211 (updating of taxpayer information) and F11 (income tax return).
7. **Development of vision documents for Dictamen Fiscal, Exogenous Information (Información exógena), Refunds (Devoluciones), Printing of Authorizations (Autorización de Imprentas) and Document Tracking:** The TPAR Project developed the vision documents to prepare for each of these IT-related tasks.
8. **Data procurement:** The project has taken the initiative in helping the DGII procure the necessary data to develop a cross reference analysis system. This quarter, the DGII began submitting formal data procurement requests.
9. **Administrative Modernization Plan:** The TPAR project provided a number of recommendations to the MOF for reforming the current tax administration business processes, especially with regard to the audit and control areas. We continue to await the MOF's decision on whether to implement these recommendations.
10. **Creation of the Supervision and Control Office:** The TPAR Project continued lobbying for the DGII to create this new office, which through harmonizing DGII processes and procedures will improve transparency and effectiveness of all

DGII areas. While the DGII agreed to the development of this new office, the Director has not yet signed the resolution to create the office.

- 11. Project of Cooperation with the Attorney General:** Upon request of the TPAR project, the Attorney General approved the assignment of 2 prosecutors to the DGII. These prosecutors will work with the DGII's Criminal Investigation and Anti-Corruption Units to better prepare fiscal investigations for submission to the Fiscalía.
- 12. Project of Customs Data Procurement and Cooperation:** The TPAR project continued extensive efforts to procure relevant data from the customs office under a cooperation agreement, but it hasn't been possible to get to a successful ending on these matters. It is clear that the two entities do not want to share information, although it is necessary and a common international practice.
- 13. Project of cooperation between the DGII and the National Registry (CNR):** The project took the initiative on the development of an agreement between the two entities in order to procure business and property data from the CNR, for use with the Cross Reference Analysis System. To date, the DGII has not moved forward with this initiative.
- 14. Assessment and Recommendation Collection Office- Delinquent Accounts control:** The Project conducted an evaluation and assessment of the current structure, function and performance of the Collection Office, located under the Treasury (DGT). TPAR recommendations focused on reforming and strengthening the delinquent accounts collection function.
- 15. Plan for the creation of a Fiscal Compliance Call Center / Stop Filers Control:** This quarter, TPAR developed a plan for the creation of an office that controls stop filers using call center technology was developed.
- 16. Visit to the DELL Call Center:** In order to strengthen understanding of the functions and characteristics of a call center, TPAR led a study tour in April to the DELL Call Center for the Taxpayer Assistance Call Center and the Stop Filers Control Office managers. Dell Computers, Inc. provided a tour of their offices and a demo of their San Salvador Call Center.
- 17. IT Project Follow Up and Demo Meetings:** The Project continued to explain and provide demonstrations of the advances in the IT Modernization plan to DGII staff.
- 18. Development of a proposal for Tax Policy activities:** During this quarter, TPAR developed a proposal for a number of tax policy-related activities to complement and enhance the project's tax administration work.

2. Introduction

USAID commissioned Development Alternatives, Inc. (DAI) and its TPAR team to design and implement a program for modernizing and improving tax policy and administration in El Salvador. The project goals are to maximize tax collection and minimize evasion without increasing the tax rates.

USAID and the General Directorate of Internal Revenues (DGII) have prioritized several key areas for the TPAR team to target in our efforts to help modernize the tax administration, including: improving audit skills and procedures; collecting higher quality information on taxpayer wealth/income and financial/commercial transactions; improving information technology infrastructure to manage taxpayer information, cross-reference taxpayer data, automate tax administration processes, and improve online taxpayer services; training; creating and/or strengthening offices of Tax Analysis, Taxpayer Current Account, Stop filers and Delinquents, Tax Investigation, and Excise Duties; establishing a Call Center to assist taxpayers; and advising on analysis and drafting of new regulations and legislation.

The TPAR project is working with the DGII to help them achieve their targets for the tax administration:

- Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009.
- Achieve a 50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.
- Successfully implement the current tax reforms recently enacted.

To assist the DGII in their progress towards these targets, DAI and USAID have set the following goals for the TPAR project:

- Build the capacity and systems required to achieve the MOF's ambitious revenue targets;
- Establish the impartial, transparent, and rigorous procedures necessary to reduce tax evasion; and
- Strengthen the analytical abilities necessary for the DGII to gauge the fiscal impact of current law and proposed reforms and to serve as an ongoing source of expert advice to senior policy makers.

3. Activities and Quarterly Results

A more detailed description of activities completed and results achieved in the seventh quarter include:

1. **Development of the new Current Account System:** As agreed with the MoF and USAID, the project is developing the current account application using Oracle and Java Builder. The vision document was modified upon request of the DGII, and the application is currently in development. As explained in the previous report the project has been facing several difficulties; one of which is the technical equipment expected to be provided by the MOF. DINAFI (the MoF's IT Division) did not, as promised, provide a server for development. Nevertheless, the project has continued with the task successfully.
2. **Development of the Taxpayer Registration Application:** The Taxpayer Registration Application was finished during this quarter. The next step will be to conduct the testing of the application. The only problem the project faces now is access by DINAFI to the required servers for testing. The project expects that the MoF will fulfill its commitment and provide the necessary servers.
3. **Implementation of the Call Center system:** The Call Center system was developed and all the necessary testing was performed. The systems are ready to be used, and the counterpart IT expert from DGII is prepared to continue managing the system. There are currently 5 operators at the call center. Since September 2006, the project has requested that the DGII hire 20 people for the Call Center, however, these staff have not yet been hired. The project has coordinated the necessary training for the team. Once they are in place, there will be in a 2-month training program that will include:
 - Tax Code;
 - Income Tax Law;
 - Vat Law;
 - Administrative and technical processes and procedures of the DGII;
 - Management of the CAT Consultation System developed by TPAR;
 - Use of the Call Center program; and
 - Processes and procedures of the Call Center

The project has asked the Director General to designate an official to engage in the handover and formally receive the Taxpayer Assistance Call Center.

4. **Plan for the creation of the Legal Consultation System:** The TPAR project will develop a system for the legal department. This system will contain all the laws, rulings, and court decisions regarding tax matters. The software that will be used for this system is the same used for the CAT. The project has assigned one

computer to be used as a server and all content in the information system will be posted on the MoF website for the taxpayers' and DGII officials' consultation.

- 5. Development of the Data Warehouse (DWH):** The project has been developing demos and data models for the DWH, but we continue to wait for the DGII to provide the necessary data. During this period the Director General signed some of the data request letters. Additionally, the project has determined the preliminary algorithms that will be used to set up the data mart, and the TPAR-hired economist is currently conducting research to confirm the equations and develop the final document.

It is important to highlight that, although the TPAR COP has been taking the initiative in the procurement of the required information from other entities (DGA, DGT, CNR, Pension Funds), it is the responsibility of the DGII to provide the data to TPAR, to upload the data, and to continue doing so in the future. This is a key issue: if the information is not procured at the right time every year, the cross reference analysis system that the Data Warehouse contains will be jeopardized.

- 6. Implementation of a new system for returns processing (Digitalization):** The project developed a new system for return processing that relies on digitalization and structured data recognition. This task complies with the task order requirements of a Microfilm system to preserve the returns. The new system enables the DGII to more accurately detect stop filers by improving the quality of returns data. Moreover, it will improve case selection, inform the cross reference analysis system, and inform the current account, among other things. Currently, the F211 form (Taxpayer Information Updating) and the F11 form (Income tax return) have been redrafted and adjusted, to enable their processing by the new system. The project trained the taxpayer service personnel and transferred the necessary knowledge to the Return Processing Office in order to have the new process in function. Unfortunately, they have not implemented as they should, so the project is constantly informing the chief of the office of the need to comply with the protocols and standards and to use the system in a proper and efficient manner.
- 7. Development of vision documents for Dictamen Fiscal, Exogenous Information (Información exógena), Refunds (Devoluciones), Printing of Authorizations (Autorización de Imprentas) and Document Tracking:** In preparation for the following IT tasks, the Project developed the Vision Documents for the Dictamen Fiscal, Exogenous Information, Refunds, Printing of Authorizations and Document Tracking. This task will be developed once the Current Account, Taxpayer Registration, and management applications are complete.
- 8. Data procurement:** In order to create a cross reference analysis system (CRAS), the project requested that the DGII retrieve select third-party data. The project, in coordination with the counterpart team, has been working with different

entities to start this data procurement process, with the understanding that it is the DGII that has the legal power and responsibility to provide the data.

First, we identified the sources of information that could be useful for the CRAS and the technical conditions required. Then the counterpart team made contact with the various sources and determined procedures for procuring the data. Among other entities involved in the process are the CNR, Sertracen,³ Pension Funds, DINAFI, Credit Cards, etc.

During the last days of April the DGII began requesting from the different entities some of the data that the project needs for the cross reference analysis system and the data warehouse. It is expected that this data will be procured during the next quarter.

- 9. Administrative Modernization Plan:** The project continues to expect the MoF to implement TPAR recommendations for reform of the current structure, based on several consultancies that have been performed. These recommendations now include those from TPAR's Business Process Analysis, which recommends serious reforms to the current structure of the auditing and control areas. It is necessary that the DGII enact substantial reforms in these areas in order to comply with the international best practices and be able to effectively attack the tax evasion phenomenon that currently exists in El Salvador. Unfortunately, a decision still has not been made in this regard by the MOF. Should the MOF agree to these reforms, the project will support the DGII's involvement in their implementation.

Among these recommendations is the creation of the Excise Tax Office that was proposed by the TPAR project to start in January 2007. There has not yet been a decision made by the MoF in this regard.

Additionally, many processes and procedures must be changed as recommended by the project, especially in the control areas. Formal recommendations have already been submitted by TPAR and decisions on these matters are expected to be made by the MoF.

- 10. Creation of the Supervision and Control Office:** As explained in previous reports, due to the lack of clear division between the normative and the operative functions at the DGII, the project proposed the creation of an office of Supervision and Control. The project has provided the IT equipment for the Office and is currently expecting the General Director to sign the resolution to create the Office. So far, no decision has been taken by DGII.

³ CNR refers to "Centro Nacional de Registro", which is the office responsible for business and property registration. Sertracen is the office responsible for vehicle registration.

- 11. Project of Cooperation with the Fiscalia:** The Fiscalia has finally decided to assign two prosecutors (fiscales) to DGII. The prosecutors will prosecute cases submitted by the Criminal Investigation Unit and the Anticorruption Unit. The DGII has provided the facilities and requested from the project a procurement of office equipment. During the month of May the equipment will be procured and, as agreed with the Fiscalia and the DGII, the prosecutors should begin their activities by May 14th.
- 12. Project of Customs Data Procurement and Cooperation:** The TPAR project continues to carry out all efforts to procure relevant data from the customs office under a cooperative agreement, but it has not been possible to achieve a successful resolution on these matters. It is clear that the two entities do not want to share information, although it is necessary and a common international practice. This matter must be addressed at the Ministry level.
- 13. Project of cooperation between the DGII and the CNR:** The project took the initiative on the development of an agreement between the two entities in order to procure CNR data for the Cross Reference Analysis System. The CNR houses the property registration system, a very useful tool for the cross reference analysis system. Currently, the DGII has not moved forward with this initiative. If this matter does not move forward at the DGII, TPAR will not be able to include it in the system and in the case selection process.
- 14. Assessment and Recommendation Collection Office- Delinquent Accounts control:** The Project developed a task to evaluate and assess the current structure, function, and results of the Collection Office, located under the DGT. The consultants have had several meetings with the DGT and the Fiscalia regarding the activities of delinquent accounts collection. It is clear for the project that the current system must be changed and moved to a co-active regulation. The necessary recommendations have been made in order to reform and strengthen the delinquent accounts collection function. If the Ministry of Finance finally decides to change the current structure, the project will support them in legal reforms and the necessary training for its implementation. Additionally, a Collection Call Center could be set up.
- 15. Plan for the creation of the Fiscal Compliance Call Center-Stop Filers control:** The plan for the creation of an office that controls stop filers using call center technology was developed. The tax administration requires an office that deals efficiently with the control of stop filers using state of the art technology and procedures in a way that the any taxpayers' lack of compliance can be detected and controlled within a month following the due date. The office will be located under the DICOT, and the control of the stopfilers will be concentrated in this office (currently the regional offices have that control). Also, the process will be supported with automated systems and a call center strategy. The project requested that the DGII select the personnel and prepare the facilities. The project will develop the technology for the case selection and the call center and

will provide computers and training. It is expected that the call center will begin operations in November.

- 16. Visit to the DELL Call Center:** In order to strengthen the knowledge of the Taxpayer Assistance Call Center and the Stop Filers Control Office in the functions and characteristics of a call center, the project requested that Dell Computers Inc. provide a tour and demo of the Call Center they have in San Salvador. This visit and demo was conducted at the end of April.
- 17. IT Project Follow Up and Demo Meetings:** The Project continued to explain and provide demonstrations of the advances in the IT Modernization plan to DGII staff. The TPAR IT team continues to work closely with counterpart DGII IT staff to ensure that they can use and manage the broad range of IT applications being developed by the project.
- 18. Development of a proposal for the Tax Policy Project:** During this quarter TPAR developed a proposal for a series of activities related to tax policy reform analysis. In Washington (February 17) the COP reviewed and discussed the draft of a proposal with Mark Gallagher and during the quarter the proposal was adjusted and submitted to USAID for approval.

4. DGII Performance—Quarterly Review

The Task Order document mandates that DAI report quarterly on the Government of El Salvador's (GOES) progress towards the following targets:

- Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009.
- 50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.
- Successful implementation of the current tax reforms recently enacted.

Increase tax revenues equivalent to 2.5-3.0% of GDP by 2009. The Ministry of Finance (MOF) target for 2009, according to the Task Order document, is a tax ratio of 15.2% (3% increases from 2004). The revised target adjusts the goal to achieve a 2.2% increase, with a tax ratio of 14.4%. If needed, the goal rate will be adjusted.

Continuing the pattern throughout the TPAR project, revenues have been increasing significantly during the last 3 months.

INTERNAL VAT

	2005	2007	Difference	Growth Rate	2006	2007	Difference	Growth Rate
February	45,509.1	53,093.0	7,583.9	16.7	48,086.8	53,093.0	5,006.2	10.4
March	42,915.6	47,148.9	4,233.3	9.9	44,090.2	47,148.9	3,058.7	6.9
April	42,916.7	52,538.2	9,621.5	22.4	45,986.7	52,538.2	6,551.5	14.2
Average	131,341.4	152,780.1	21,438.7	16.3	138,163.7	152,780.1	14,616.4	10.6

Thousand of Dollars

Source: Collections Report, Treasurer's Office - MOF

The results in the collection of the VAT are significant, compared with the year 2004. The increase between these two periods was 16.7% for February, 9.9% for March and 22.4% for April. The growth rate compared with the previous year 2006 for February was 10.4%, March was 6.9% and April was 14.2%.

Import Vat

	2005	2007	Difference	Growth Rate	2006	2007	Difference	Growth Rate
February	46,359.1	68,528.2	22,169.1	47.8	69,444.8	68,528.2	-916.6	-1.3
March	52,149.0	72,106.2	19,957.2	38.3	67,903.5	72,106.2	4,202.7	6.2
April	54,620.1	63,796.6	9,176.5	16.8	59,669.4	63,796.6	4,127.2	6.9
Average	153,128.2	204,431.0	51,302.8	33.5	197,017.7	204,431.0	7,413.3	3.8

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Import VAT witnessed a slowing process in the growth rate over the same period. Between 2004 and 2007, the import VAT grew at rates of 47.8% in February, 38.3% in March, and 16.8% in April. The growth rates compared with 2006 for February were negative (-1.3%), and positive in March (6.2%) and April (6.9%).

Income Tax

	2005 ^{1/}	2007 ^{3/4/}	Difference	Growth Rate	2006 ^{2/}	2007 ^{3/}	Difference	Growth Rate
Annual collection	164,153.8	247,150.2	82,996.4	50.6	190,415.5	247,150.2	56,734.7	29.8
Average	164,153.8	247,150.2	82,996.4	50.6	190,415.5	247,150.2	56,734.7	29.8

1/ Collection FY 2004

2/ Collection FY 2005

3/ Collection from Jan 01 to April 30 2007, FY 2006

4/ Includes \$23.5 millions of collection expected from May to Oct 2007, as a result of the payment agreements between taxpayers and DGT.

The Income tax, unlike the VAT, experienced a very significant growth compared with the year 2005 (FY 2004), with revenue growth at a rate of 50.6%. Compared with the year 2006 (FY 2005) the rate of growth was 29.8%; a very significant growth if we consider that the regular rate of growth from 2004 to 2006 was 16%.

Income Tax Withholding

	2005	2007	Difference	Growth Rate	2006	2007	Difference	Growth Rate
February	25,219.9	33,871.0	8,651.1	34.3	29,162.4	33,871.0	4,708.6	16.1
March	24,552.3	33,696.8	9,144.5	37.2	29,101.1	33,696.8	4,595.7	15.8
April	27,215.4	36,229.3	9,013.9	33.1	31,176.9	36,229.3	5,052.4	16.2
Average	76,987.6	103,797.1	26,809.5	34.8	89,440.4	103,797.1	14,356.7	16.1

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Income Tax withholding experienced substantial growth compared with the year 2004. The rates increased to 34.3% in February, 37.2% in March, and 33.1% in April. Between 2006 and 2007, the rate for February was 16.1%, 15.8% in March, and 16.2% in April.

Account Payments

	2005	2007	Difference	Growth Rate	2006	2007	Difference	Growth Rate
February	17,557.9	23,836.8	6,278.9	35.8	20,700.6	23,836.8	3,136.2	15.2
March	16,505.6	21,449.8	4,944.2	30.0	19,235.7	21,449.8	2,214.1	11.5
April	17,252.5	22,747.9	5,495.4	31.9	19,705.1	22,747.9	3,042.8	15.4
Average	51,316.0	68,034.5	16,718.5	32.6	59,641.4	68,034.5	8,393.1	14.1

Thousand of Dollars

Source: Collections report Treasurer office - MOF

Account Payments also registered important increases compared with prior years. Compared with the year 2004, Account Payments increased by 35.8% in February, 30% in March, and 31.9% in April. Between 2006 and 2007, rates increased 15.2% in February, 11.5% in March and 15.4% in April.

During the quarter, tax collection has exhibited a very strong growth in the income tax collection, registered stable rates in Account Payments and withholdings, but experienced somewhat lower growth rates of VAT compared with previous quarters.

50% reduction in tax evasion and avoidance in VAT, income tax, and excise tax.

The second GOES target is to reduce tax evasion in VAT, income tax, and excise tax by 50 percent. The TPAR project conducted a tax evasion study and a benchmarking study to measure and track this evasion. The UPET (DGII Office of Tax Analysis) has agreed to implement the evasion study every year during the second quarter.

The TPAR benchmarking study estimated VAT evasion to be 40.9%; against a Central American benchmark of 25% and an international benchmark of only 10%. Based on the studies developed by the TPAR Team, the goal agreed with DGII and USAID has been the reduction of tax evasion to 30.7%, meaning a reduction of 25% on the evasion rate. Nevertheless, the TPAR Team will work with the vision of achieving a 50% reduction of tax evasion. This early indicator suggests that there is significant room for El Salvador to improve VAT compliance.

The project is still waiting for the tax evasion study for 2005 that should have been conducted by UPET in April. Unfortunately the Central Bank has not submitted the Input-Output matrix to DGII yet. The Bank promised to deliver the matrix to UPET by mid-June.

During the quarter, the project developed a plan for the creation of a Fiscal Compliance Call Center that will help the DGII to control stop-filers and will help to reduce tax evasion. The creation of this office will be supported by TPAR through technology development, computer procurement and training. The MOF has, in turn, committed to select the personnel and provide the facilities.

Successful implementation of the current tax reforms recently enacted. The project has been working on the development of a long-term strategy to successfully modernize the GOES Tax Administration and, in the mean time, help them to implement the fiscal reforms of 2004. The project has been performing, among others, the following activities:

- 1. Development of Current Account Application:** This application will help detect stop filers and improve compliance. Additionally payments will be issued in an efficient and safe manner with the new current account.

- 2. Development of the Taxpayer Registration application:** With a well structured and updated Registry, the DGII's control and detection programs will be more effective.
- 3. Development of the Call Center System:** The Call Center will provide information to taxpayers on administrative, legal and procedural issues, helping them to understand their duties and making it easier for them to comply with the Law. It will help the tax administration avoid the constant presence of taxpayers within the tax administration offices.
- 4. Development of the Data Warehouse:** The data warehouse will be the basis of the audit case selection program, allowing the tax administration to have an automated system to detect inconsistencies and tax evasion schemes.
- 5. Supervision and Control Office creation plan development:** The Supervision and Control Office will help the TPAR Project with the implementation of the new system by documenting and overseeing the changes to management systems and business process.
- 6. Assignment of prosecutors from the Attorney General's Office to the DGII:** To improve understanding of the new regulations for fiscal crime enforcement, TPAR suggested that 2 prosecutors from the Attorney General's Office be assigned to the DGII. This is expected to improve prosecution of fiscal crimes.
- 7. Fiscal Compliance Call Center:** This office will control the stop filers promptly and on a permanent basis. It will help not only to reduce tax evasion but to maintain the compliance level of taxpayer Account Payments, Withholdings and Deductions, which are among the most important changes generated by the fiscal reform of 2004.

5. TPAR Project Performance—Quarterly Review

Finally, we measure the TPAR project's performance by comparing our activities and progress against the performance standards set out in the Task Order document, (from Section 5, pp. 12-13 of the Task Order):

Performance Standard	TPAR Progress
Effective implementation of tax reforms	The TPAR project continued to support the DGII on the implementation of recommendations regarding the fiscal reforms. Qualitative and quantitative highlights have been discussed throughout this report.
Achievement of tax collection targets measured on a quarterly basis	TPAR has been evaluating the DGII's performance against collections targets for the quarter, and the rates and collections have surpassed expectations.
a) Enrolls all entities subject to the taxes according to law, on master files (tax database)	During this quarter, the project persuaded the DGII to request part of the information that is needed for the cross reference analysis system and the data warehouse; these data cover pension funds, credit cards, Sertracen and stock market brokers.
b) Monitors filings against the master files	The development of the Taxpayer Current Account, the Taxpayer Registration, the Management Control and the Data Warehouse continues during this quarter. The current account system application was fully developed.
c) Ascertain liability according to the law	The project continued supporting the strengthening of the Criminal Investigation Office and the Anticorruption Office. Training for both units was coordinated with OTA, and strategic planning for the units was implemented with support from TPAR. Additionally the projects obtained the cooperation of the Attorney General by getting two prosecutors assigned to DGII.
d) Monitors, records, and controls payments in a timely manner	The new taxpayer current account application is currently in development. The problem of breakdowns between the DGII and the DGT has been addressed, so that payments can be updated in the system and delivered a timely manner.
e) Compares payments at decentralized sites with forecast payments	The procurement of the data for the data warehouse continues. The project persuaded the DGII to request a portion of the data required. Additionally, the digitalization system is in the process of implementation now, making payment and returns data more accurate and reliable for forecasting purposes.
f) Selects and performs audits and collections	The project has submitted to the Directorate of the DGII the necessary recommendations in order to reform the current

Performance Standard	TPAR Progress
activities fairly and effectively	structure, processes and procedures of the control areas (Fiscal Compliance and Auditing). Based on the TPAR assessments, the control processes and structure are far from international best practices, and need to be reformed. Currently the project is expecting a political decision from the directorate in order to start supporting the proposed reforms to these areas. Additionally, the project assessed the collection function and recommended changes to the DGT, in light of the 2004 reforms. TPAR is working on the programming of an On the Job Training for Income Tax and VAT audit techniques, focusing on Large and Medium taxpayers.
g) Assists taxpayers with compliance through an efficient call center	TPAR finished the development of the Call Center System and the Consultation System, and awaits the DGII's hiring of 20 operators for the call center.
h) Establishment, scheduling, and achievement of a set of key international benchmarks on tax policy & administration.	The TPAR team is providing support to the UPET in the development of benchmarks for 2005 and 2006.