

I. PROJECT IDENTIFICATION

<p>1. PROJECT TITLE</p> <p style="text-align: center;">TAX ADMINISTRATION & REFORM</p>		<p>APPENDIX ATTACHED</p> <p><input checked="" type="checkbox"/> YES <input type="checkbox"/> NO</p>
<p>3. RECIPIENT (specify)</p> <p><input checked="" type="checkbox"/> COUNTRY <u>URUGUAY</u></p> <p><input type="checkbox"/> REGIONAL <input type="checkbox"/> INTERREGIONAL</p>		<p>2. PROJECT NO. (M.O. 1095.2)</p> <p style="text-align: center;">528-11-720-001.2</p> <p>4. LIFE OF PROJECT</p> <p>BEGINS FY <u>1964</u></p> <p>ENDS FY <u>1975</u></p>
<p>5. SUBMISSION</p> <p><input checked="" type="checkbox"/> ORIGINAL <u>6/11/70</u></p> <p><input checked="" type="checkbox"/> REV. NO. <u>1</u> DATE <u>11/74</u></p> <p>CONTR./PASA NO. <u>JA(TA) 09-</u></p>		

II. FUNDING (\$000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL \$	C. PERSONNEL		D. PARTICIPANTS		E. COMMODITIES \$	F. OTHER COSTS \$	G. PASA/CONTR.		H. LOCAL EXCHANGE CURRENCY RATE: \$ US (U.S. OWNED)		
		(1) \$	(2) MM	(1) \$	(2) MM			(1) \$	(2) MM	(1) U.S. GRANT LOAN	(2) COOP COUNTRY	
											(A) JOINT	(B) BUDGET
1. PRIOR THRU ACTUAL FY	1,072	816	260	190	116	33	33	816	260			
2. OPRN FY 75	120	74	18	46	32	- 0-	- 0-	74	18			
3. BUDGET FY												
4. BUDGET +1 FY												
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBQ. FY												
8. GRAND TOTAL	1,192	890	278	236	148	33	33	890	278			

9. OTHER DONOR CONTRIBUTIONS

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT
Organization of American States (OAS)	Technical Advisory Services Participant Training Funds	Estimated \$35,000 an.

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTER <u>Ivan Trabal</u> <u>Anilee Rollins</u>	TITLE <u>Tax Advisor</u> <u>Acting Program Officer</u>	DATE <u>Nov. 14, 1974</u>
2. CLEARANCE OFFICER <u>Leonard O. Horwitz</u>	TITLE <u>AID Representative</u>	DATE <u>Nov. 14, 1974</u>

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

2. CLEARANCES

BUR/OFF.	SIGNATURE	DATE	BUR/OFF	SIGNATURE	DATE
LA/APU LA/DR	<u>P. Faucett</u> <u>J. Breen</u>	<u>12/11/74</u>	LA/MRSD	<u>Donor Lion</u>	<u>12/16/74</u>
LA/DR	<u>W. Feldman</u>	<u>12/12/74</u>	LA/OPNS	<u>Cecil Uyehara</u>	<u>12/12/74</u>
LA/GC	<u>Irwin Levy</u>	<u>12/12/74</u>	LA/DP	<u>Lawrence Harrison</u>	<u>12/12/74</u>

3. APPROVAL AAS OR OFFICE DIRECTORS

SIGNATURE <u>Herman Kleins</u>	DATE <u>12/17/74</u>
TITLE <u>Assist. Admins. for L.A.</u>	

4. APPROVAL A/AID (See M.O. 1025.1 VI C)

SIGNATURE	DATE

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	<input type="checkbox"/> ORIGINAL	<input checked="" type="checkbox"/> REVISION 1	11/14/74	

This PROP revision, as requested by the GOU, proposes (a) the continuation of the tax administration project through June 30, 1975, (b) the provision of two man-years of advisory services to the national tax office in the Ministry of Economy and Finance and training opportunities for tax officials, (c) funding in FY 1975 at a level of \$147,000, and (d) a review of performance progress late in the fiscal year as a basis for further decisions with regard to the future of the program. The extension of the project would afford AID an opportunity to play a significant role in helping the GOU at a critical point with its plans to improve the national tax collection machinery as part of a broader GOU economic reform program supported by the IMF and the World Bank.

The request of the Minister of Finance to continue the program in tax administration follows several years of rather mixed experience with the project. In some years the signs of progress have been quite hopeful, in others they have represented little more than minimum justification for continuing the program. This pattern of performance by the GOU has held true under the current PROP where, as reflected in previous PARs, there have been varying degrees of progress in the priority areas jointly selected for attention by AID and officials of the national tax office.

While the past year and a half have been a disappointment with regard to concrete accomplishments, the period has provided much promise as to future progress. Much essential groundwork has been completed which is expected to result in expeditious implementation of needed reforms.

During this period new legislation has been approved to facilitate (a) the retention of qualified staff for the tax office through higher salaries, (b) the integration of the five separate tax offices through providing financing from this year's budget for the plans and construction of a central facility to house them, (c) a more adequate level of operating funds for the tax office through increased budgetary allocations for this purpose, and (d) the institution of internal audit capability through the creation of an internal audit unit.

Also, for the first time a tax code has been prepared which is now being considered for adoption by the Council of State. An ADP plan for operations has been prepared by the tax office with the assistance of the IRS advisory team. The IRS advisors have also assisted in the preparation of a functional reorganization plan for the tax office which is being reviewed by the special commission on reorganization appointed by the Director General of Taxes.

With regard to fiscal policy measures, there have appeared hopeful signs of a significant turn-around in the fiscal policies of the GOU principally at the initiative of the new Minister of Economy and Finance, Végil Villegas, who has sponsored the partial tax reform included in the 1974 budget. The tax policy changes already announced and reported to Washington in AWD 2460 have set the stage for further basic reforms that will make the tax system an instrument not only of improved fiscal management but also for development.

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The Minister has given full support to the joint GOU/AID program of fiscal policy studies now being undertaken as a guide to the planning and implementation of longer-term fiscal reform. The studies are being carried out under the leadership of Dr. Arnold Harberger of the University of Chicago. We also have every expectation that the Minister will successfully negotiate an IMF standby agreement of which a major condition will be fundamental fiscal policy reform with priority attention to improving the performance of the tax system.

However important these tax policy reforms may be, the opinion of Dr. Harberger and key Uruguayan tax experts is that improved fiscal management and increased revenues depend less on tax policy changes than on effective administration of the present tax system.

The Government seems to be moving, on the basis of statements of the Minister and actions so far, away from its current heavy dependence on export taxes and a variety of low yield nuisance taxes toward a tax program primarily geared toward land productivity (IMPROME) in the rural sector and the value added tax covering the urban sector. We think this approach makes sense with respect to administrative feasibility, equity and development objectives. However, the key to moving in this direction is improving the administrative capability of the Tax Office to manage these two programs effectively. It is precisely in these areas of organization and collections that the proposed IRS advisory services and training can make their greatest contribution over the next several months.

Important to effective administration in the tax office, and to the success of the AID inputs, is the recruitment of strong management-oriented and technically qualified leadership. The Minister is now actively searching for a qualified candidate to head the tax office.

The Government's economic measures, including the proposals for improved national tax administration, may signal a turn-around in the Uruguayan economy after nearly two decades of stagnation. Principally for this reason, we believe that continuing the tax administration project to help the GOU achieve its fiscal reform goals is a target of opportunity for AID, characterized by a modest input and low level of risk in return for a potentially high return. For the first time in many years, we believe the climate now exists for undertaking meaningful reforms with reasonable expectations of success, and that AID support of them could have real impact during the GOU transition to more responsible financial management.

Att. Project Logical Framework

PROJECT LOGICAL FRAMEWORK

Project Title & Number:

TAX ADMINISTRATION & REFORM - 528-11-720-001.2

Life of Project:

From FY 1964 to FY 1975

Total U.S. Funding \$ 1,219

Date Prepared: 11/14/74

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Program or Sector Goal:</u> <u>The broader objective to which this project contributes:</u></p> <p>To bring about a significant improvement in GOU economic management.</p> <p>To increase revenues adequate to finance the national development program.</p>	<p><u>Measures of Goal Achievement:</u></p> <p>Adoption and implementation of basic economic reform policies and laws, a stabilization program to reduce inflation, geared to an IMF Stand-By Agreement and tax policy reforms based on results of tax policy studies.</p> <p>Increased percentage of revenue collections to GDP from 11 to 16 percent.</p>	<p>Laws, decrees, Central Bank circulars, etc.</p> <p>IMF Stand-By Agreement.</p> <p>CIAP, World Bank reports on GOU economic reforms and results.</p> <p>Revenue collections/GDP figures provided by Ministry of Economy & Finance.</p>	<p><u>Assumptions for achieving goal targets:</u></p> <p>Political, social stability will be maintained.</p> <p>Present GOU economic team will continue to receive political/military support in carrying out economic reform program.</p> <p>Major fiscal and tax policy reforms will be implemented during the life of the project.</p> <p>Additional fiscal and tax reforms as suggested by the results of the economic and tax policy studies will be implemented, particularly those recommended in the studies by Dr. Harberger.</p> <p>No additional, unforeseen economic emergencies.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Purpose:</u></p> <p>To upgrade the performance of the tax administration system to enable it to efficiently administer tax laws generally, specifically the new reform laws so as to generate increased public revenues.</p>	<p><u>Conditions that will indicate purpose has been achieved: End-of-Project status.</u></p> <p>Administrative reform plans will have been approved, budget provided, personnel assigned and implementation under way.</p> <p>Implementation of administrative reform will be 40% completed by June 1975 and fully-completed by January 1976.</p>	<p>Periodic evaluation by Mission of the progress achieved in the preparation of reorganization plan.</p> <p>Reduced level of delinquent taxpayers.</p> <p>Revenue collection figures provided by Ministry of Economy and Finance.</p>	<p><u>Assumptions for achieving purpose:</u></p> <p>Minister of Finance will support the program.</p> <p>Director General of Taxes will support the program and provide active leadership and management during implementation.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Outputs:</u></p> <p>Completed and partially implemented plans for the reorganization of the tax administration office establishing separate audit, collection, planning, internal audit and administrative units.</p> <p>An effectively functioning ADP system providing adequate and timely information for the control of the two largest revenue-producing taxes, value-added and IMPROME.</p> <p>Upgraded management of the alcohol, beverages and tobacco unit resulting from a short-term technical assistance study.</p>	<p><u>Magnitude of Outputs:</u></p> <p>Reorganization plans will consist of a re-structured distribution of functions and responsibilities for each unit, description of related personnel and staff requirements, budgetary provisions, facilities and administrative support arrangements. An implementation schedule will be attached.</p> <p>The master file on the value-added and IMPROME taxes will be updated, computer generated pre-payment notices available, and an effective system to control delinquent taxpayers operational.</p>	<p>Government laws and decrees authorizing the implementation of the plans to reorganize the Tax Office and budgeting the necessary funds to carry out the plans.</p> <p>Mission evaluation of progress achieved.</p> <p>Observation of ADP outputs and operating systems.</p> <p>Visit to alcohol plants, breweries, etc., to determine use of mechanical measuring devices.</p> <p>Study of GOU plans to measure actual performance against established goals, targets and timetables.</p>	<p><u>Assumptions for achieving outputs:</u></p>

(continuation)

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Outputs:</u></p> <p>Improved managerial and technical capability throughout the system.</p> <p>Restructured training program to support reorganization of tax system.</p> <p>Increased number of trained tax officials.</p>	<p><u>Magnitude of Outputs:</u></p> <p>Establishment of control mechanisms at the factories to accurately measure tax base.</p> <p>Preparation of annual plans setting up goal criteria and timely adoption of remedial actions.</p> <p>A revised training program approved and in process of implementation.</p> <p>Thirty-four officials trained.</p>	<p>Study of revised training plan and training records.</p>	<p><u>Assumptions for achieving outputs:</u></p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Inputs:</u></p> <p><u>AID/IRS</u></p> <p><i>Taxol - collections IMPROVEMENTS</i></p> <ul style="list-style-type: none"> -One long-term tax administration advisor - Team Leader. -One short-term administration specialist <i>D+M consolidation of tax offices</i> (4 1 mos.) -One short-term ADP technician (5 3 mos.) -One short-term alcohol, beverages and tobacco specialist (3 2 mos.) <p>Participant training financing.</p> <p><u>OAS</u></p> <ul style="list-style-type: none"> -One long-term organization & methods advisor -Participant training financing. 	<p><u>Implementation Target (Type and Quantity):</u></p> <p>On board until 6/30/75</p> <p>1/1/75 to 3/31/75</p> <p>1/1/75 to 6/30/75</p> <p>1/1/75 to 3/31/75</p> <p>FY 75 PASA Funding \$ 101,000</p> <p>\$ 46,000</p> <p>On board: to be determined jointly by GOU/OAS; \$ 25,000 estimated \$ 10,000 estimated.</p>	<p>Mission study and evaluation of available information and data.</p>	<p><u>Assumptions for providing inputs:</u></p> <p>Baseline data on revenue collections and GDP 1973 - UR 278. billion in current prices.</p> <p>GDP UR 2,400 billion in current prices.</p> <p>Percentage of revenues to GDP: 11.5%.</p> <p>(continuation)</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Inputs:</u></p> <p><u>Host Country</u></p> <ul style="list-style-type: none"> -Director General of Taxes - Principal Counterpart -Adequate number, quality and utilization of personnel -Adequate facilities and administrative services for tax office -Budget for a taxpayer education campaign -Budget for participant travel. 	<p><u>Implementation Target (Type and Quantity):</u></p> <p>All GOU inputs will be on a continuing basis. GOU has already budgeted \$230,000 in 1974 for project related activities.</p>	<div style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;">COMMENTS:</p> <p style="text-align: center;">FICHE</p> <p style="text-align: center;">ABSTRACT</p> </div>	<p><u>Assumptions for providing inputs:</u></p>

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