Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean
An Overview

Program Name: USAID Leadership in Public Financial Management (LPFM)
Sponsoring USAID Office: USAID/LAC
Contract Number: EEM-I-00-07-00005-00 Task Order: 11
Contractor: Deloitte Consulting LLP
Date of Publication: August 31, 2013

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List of Acronyms and Abbreviations

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<th>Definition</th>
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<tr>
<td>CIAT</td>
<td>Inter-American Center of Tax Administrations</td>
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<tr>
<td>COTS</td>
<td>Commercial off-the-shelf</td>
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<td>HR</td>
<td>Human resources</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IT</td>
<td>Information technology</td>
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<td>ITIS</td>
<td>Integrated tax information system</td>
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<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<tr>
<td>LTO</td>
<td>Large taxpayer office</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>SARA</td>
<td>Semi-autonomous revenue authority</td>
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<tr>
<td>SLA</td>
<td>Service level agreement</td>
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<tr>
<td>SWOT</td>
<td>Strengths, weaknesses, opportunities, and threats</td>
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<tr>
<td>TIN</td>
<td>Taxpayer identification number</td>
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<tr>
<td>VAT</td>
<td>Value added tax</td>
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ACKNOWLEDGMENTS:

This overview summarizes key points of the full product, entitled Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean. A number of persons contributed to the larger product. Arturo Jacobs authored Chapters 2, 3, 4, 9, and 16 and provided revisions to all other chapters. David Crawford authored Chapters 7, 10, 11, and 15 and provided material for the discussion of Legal Services in Chapter 3. Colin Lethbridge authored Chapter 8 and, with Diana Osinski and Suzanne Hinsz, Chapter 13. Terry Murdoch authored Chapters 5 and 17. Yassie Hodges authored Chapters 6 and 14. Guillermo Jimenez authored Chapter 12. Doug Pulse and Anton Kamenov provided an outline for the chapters, authored Chapter 1, and, with Rajul Awasthi of the World Bank Group, commented on drafts. Ricardo Barrientos and Abelardo Bermejo of Instituto Centroamericano de Estudios Fiscales (ICEFI) and Ronald McMorran commented on selected chapters. This assistance is greatly appreciated.
Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean – An Overview

The following is a chapter-by-chapter summary of the key messages in the larger product. The reader should consult the larger product for relevant references and definitions.

Chapter 1. Introduction

For the purposes of this product, taxes are the compulsory, unrequited payments to the general government sector – a definition adopted by the OECD, the IMF, and the World Bank. The tax administration is the division of the government tasked with collecting taxes. An effective tax administration ensures adequate and timely revenues, allowing the government to deliver goods and services, and minimizes hindrances to private businesses and economic growth.

1.1. Purpose

This product details the workings of a modern tax administration. It is designed to enable tax administration officials to assess their performance against leading practices across the functions of tax administration. Much has been written about efficient and effective tax administration, and the World Bank, IMF, USAID, and others have also developed benchmarking methodologies and tools. This product builds on and contributes to the existing work by providing a comprehensive, user-friendly guide with a unique structure and a regional focus on Latin America and the Caribbean (LAC).

1.2. Reading the Product

This product contains seventeen chapters as follows.

- Chapter 1 is the Introduction.
- Chapter 2 presents a Conceptual Framework for the document and discusses the key tasks and main functions of the tax administration, as well as the environment in which it operates.
- Chapter 3 presents the Legal Framework that enables the tax administration to perform its duties.
- Chapter 4 focuses on the tax administration's Organizational Structure and Management.
- Chapter 5 discusses taxpayer Registration and the need of the tax administration to know and manage its taxpayers.
- Chapter 6 addresses Taxpayer Services – the information, education, and support that tax administrations provide to taxpayers.
Chapter 7 details the process of **Filing and Payment**, which are the two primary obligations of the taxpayer, and areas of related non-compliance.

Chapter 8 discusses the monitoring of taxpayer compliance through **Audit**.

Chapter 9 focuses on **Fraud Investigations** of taxpayers who are suspected of knowingly falsifying declarations or of tax evasion, paying no tax whatsoever.

Chapter 10 discusses enforcing taxpayer compliance through the **Collections** of outstanding taxpayer debt.

Chapter 11 addresses taxpayer recourse through **Objections and Appeals**.

Chapter 12 details the ways in which **Information Technology** can support the tax administration.

Chapter 13 focuses on the tax administration's **Human Resources**.

Chapter 14 focuses on **Budget Planning and Resource Management** for tax administrations.

Chapter 15 addresses **Strategic Planning** for tax administrations.

Chapter 16 discusses the importance of **Internal Audit** to the continual improvement of tax administration's operations.

Chapter 17 details considerations of **Integrity**.

Save for Chapters 1 and 2, all chapters follow the same structure. Namely, each chapter:

- Begins with a short introduction of its subject topic.
- Lists leading practices in its respective area.
- Discusses common trends, i.e., practices that administrations around the world may be implementing or considering, but that are not yet proven leading practices.
- Presents a four-level maturity model, showing the practices of tax administrations at various stages of development – from basic to leading.
- Describes tax administrations in the LAC region with respect to the subject topic and, where possible, to the maturity model of the section, but without presuming in any way to score or rank individual countries.
- Presents key guidelines in the form of rules of thumb, benchmarks, or questions that can provide an initial, high-level indication of tax administration performance in a given area.

**Chapter 2. Conceptual Framework**

This chapter guides the remaining chapters by detailing the basic mission, core functions, and main responsibilities of a tax administration, as well as the operating environment in which a tax administration functions.

**2.1. Exclusions from the Term "Tax Administration"**

This product does not discuss the administration of taxes on international trade (Customs) or tax policy. The differences between the domestic tax administration and Customs are discussed in Chapter 4.
Although the tax administration plays an important role in the development of tax policy, tax policy is a large undertaking of its own.

2.2. Core and Support Functions of Tax Administration

The core or basic functions that a modern tax administration performs in its direct operations are: taxpayer registration, taxpayer services, processing of tax filings and tax payments, audits, taxpayer objections and appeals, collection of tax arrears, and tax fraud investigations. The following support functions provide resources, support, and guidance to the core functions: information technology (IT), legal services, human resources, budget planning and resource management, strategic and operational planning, internal audit, and integrity investigations.

2.3. Main Mission and Responsibilities of the Tax Administration

The main mission of the tax administration is to collect tax revenue from taxpayers, under the country’s tax laws, without hindering private sector development. Its main responsibilities are to: 1) facilitate and encourage voluntary compliance by taxpayers; 2) administer the tax laws fairly and impartially; 3) minimize the cost and burden on taxpayers to comply with their tax obligations; 4) monitor compliance; 5) enforce the country’s tax laws in cases of non-compliance; 6) use its resources efficiently and effectively; and 7) ensure tax officials perform their functions with integrity and honesty.

The paramount objective of any tax administration is to encourage, facilitate, attain, and maintain a high degree of self-assessment and voluntary compliance by taxpayers with their tax obligations. Voluntary compliance allows the administration to focus its resources on identifying and dealing effectively with those taxpayers who fail to comply. To encourage voluntary compliance, the tax administration and the government in general undertake a number of measures, including providing support and education, targeting services to taxpayers, simplifying procedures, establishing a reputation of fairness, instituting a rigorous system of penalties, and subjecting its decisions to objections and appeals.

2.4. Operating Environment

In order to achieve its mission, the tax administration must learn not merely to cope, but to continually navigate an often difficult operating environment successfully. This section highlights the difficulties administrations face in bringing taxpayers in the underground economy, especially non-filers, into the tax net, the need to vary the treatment of taxpayers according to their size and/or sector, and the need to cooperate with public sector institutions, private sector groups, and academia.

2.5. Integrated Tax Information System (ITIS)

Although information technology (IT) is addressed in depth in Chapter 12, this section stresses that an ITIS can bring together most information that tax administrations need for successful operations. The successful design and implementation of a computerized ITIS is essential for overcoming the five challenges that dominate tax administration operations: broadening the tax base, strengthening the
organization and its management, controlling tax evasion, improving the collection of tax arrears, and facilitating voluntary compliance.

2.6. Maturity Model for Tax Administration

The maturity model can be used by tax administrations to assess their current capabilities and plan for improvement. It is similar to a benchmarking exercise, although it describes not only leading practice, but also the practices of tax administrations at lower levels of maturity. With this, tax administrations see a progression from their current state to leading practice, see progression in all components, understand what sustains improvement and performance, and are appreciative of the capacity that they already have. The maturity model in this product covers all areas of the administration's delivery framework and is vertically integrated and realistic, as a tax administration at a specific level of maturity with respect to one area will likely be at the same level across other areas.

The conceptual framework maturity model describes tax administrations at the lowest level of maturity as "unaware" and lacking knowledge of their taxpayer populations. As tax administrations develop along the maturity scale, they "awaken" to a wealth of information on their taxpayer populations, collected through better registration and taxpayer accounting, and become "poised," with appropriately defined functions, policies, procedures, and manuals. A leading practice tax administration is "solid," with policies, procedures, and manuals that have been tested over several years, allow little room for incidences of evasion or corruption, and allow focus on long-term strategic objectives and plans.

Chapter 3. Legal Framework

3.1. Leading Practice

This chapter focuses on the laws employed to impose taxes and on selected administrative provisions. It also recommends a tax code that incorporates all legal aspects of taxation into one comprehensive, coherent piece of legislation and determines the legal principles of taxation.

Principles

Tax legislation should incorporate a number of principles, including first and foremost the principle of self-assessment. It should find a balance between being specific and allowing flexibility through regulations or executive orders. It should address conflicts with other laws and international agreements and be mindful of the principles of tax policy, specifically simplicity and predictability.

Basic Provisions

The most basic provisions of tax legislation provide the legal authority to the tax administration to collect taxes. They include the specific obligations of the taxpayer (registration, filing, payment, and bookkeeping), and the computations of taxes and penalties. To emphasize voluntary compliance and cooperation between the taxpayer and the tax administration, the law should also define the rights of the taxpayer, such as to object and appeal, obtain advance rulings, and other rights.
**Provisions to Create and Organize the Tax Administration**

The tax code must also provide the necessary organization and machinery to enforce and collect taxes, including provisions to authorize the creation of the tax administration and authorize the head of the administration to determine whether, when, and how much tax is due and, with some safeguards, to delegate his/her authority to subordinates.

**Critical Compliance and Enforcement Provisions**

The tax code must include provisions that grant a variety of compliance and enforcement tools to the tax administration. Examples include the provision to enable the tax administration to obtain third-party information, compel testimony, impose lines, garnish funds, seize and sell property, make jeopardy assessments, or write off debts.

### 3.2. Common Trends

Some countries have implemented Tax Procedures Codes (Acts) successfully, combining administrative procedures while otherwise keeping tax laws separate. In the past, but less so today, some countries have enacted "framework laws" drafted in general terms and providing significant flexibility to regulations.

A trend that has gained momentum is to remove the discretionary powers of the Minister of Finance or the head of the tax administration and to have a constitutional or statutory provision that allows exemptions only by a law of general application. Various other trends are the result of technological changes. These include the use of electronic filing and signatures and to legally authorize banks to receive and process tax returns. Other trends are the result of the rising importance of international taxation issues. Basic legal provisions to address international taxation are listed in this section.

Tax administrations in many countries face formidable obstacles, such as meager budgets. In response to these circumstances, a few tax administrations, through legislation, have become semi-autonomous revenue authorities (SARAs) in hopes of more adequate funding, higher salaries, and other benefits. There is, however, no clear picture of success or failure of SARAs.

### 3.3. Tax Administration Maturity

The legal framework of tax administrations at early stages of maturity is described as "dispersed and chaotic," with taxes spread across many uncoordinated laws. As tax administrations mature, they seek "codification" of legal provisions in a single law, a consistent set of laws, or in coordinated administrative provisions. A mature tax administration has a "model tax law," with consistent administrative provisions and with all the basic principles, rights, and obligations of the taxpayer and the tax administration.

### 3.4. Latin America and the Caribbean

Most countries in LAC have sophisticated legal systems with respect to taxes. These systems are, however, deficient in important aspects. These include vague taxpayer rights, limited enforcement
provisions, weak sanctions, a general lack of delegation of authority, and bank secrecy laws that prevent third-party data use. Caribbean countries in particular still have dispersed and uncoordinated tax legislation.

3.5. Key Benchmarks

The key benchmarks of a modern legislative system for taxation follow the principles and basic provisions listed above. Namely, there is a clear tax law with coordinated administrative provisions, based on self-assessment. A modern system includes provisions defining the rights and obligations of the taxpayer and the tax administration, allowing the appropriate organization of the administration, and providing for delegation of authority and limited discretion. The system also includes strong enforcement provisions and well-designed sanctions, as well as provisions for third-party data use, international taxation issues, and advances in technology.

Chapter 4. Organizational Structure and Management

4.1. Leading Practice

Tax administrations may be organized by type of tax, by function performed, by type of taxpayer, or a combination of these. Organizational structures by function performed are preferred, as they allow for standardization of processes across similar functions and thus ease process simplification, automation, and efficiency. They also enable an integrated view of each taxpayer across all types of taxes for better compliance monitoring and enforcement.

Core and Support Functions

The functions of a modern tax administration are presented in Chapter 2, but repeated in this section so that the reader may associate them with their placement in the organizational charts in the chapter.

Taxpayer segmentation

Many tax administrations recognize that taxpayers differ in the level of services they require and in the level of control that the administration can employ to monitor and enforce compliance. The most common segmentation strategy has been to establish a Large Taxpayer Office (LTO) for taxpayers who collectively account for between 60-75 percent of the government’s overall tax revenue each year. The list of large taxpayers in the LTO should be monitored to allow for new companies to be "inducted" and to remove companies that no longer satisfy the LTO criteria. Adequate staffing of the LTO is a priority, because large taxpayers are the biggest risk of revenue loss to the government. Some countries segment medium-size taxpayers, who contribute around 10-15 percent of annual tax revenue. Care should be taken to ensure that medium taxpayer offices do not lead to too much fragmentation of the administration into small, ineffective, and inefficient units.
Integrated Administration of Withholding Taxes and Contributions

Some countries have integrated tax revenue with social contributions in a single administration because of commonality of processes and for efficient use of resources and lower taxpayer costs.

Roles of Headquarters, Regional, and Local Offices and Staff

In large countries with a large, active taxpayer population, the tax administration is organized around a headquarters office, two or more regional offices, and multiple district/field offices. In medium and smaller countries, regional offices are usually not established, and their usual roles are performed by the headquarters office. Roles of district/field offices are the same in either case. The headquarters office provides planning, support, and normative guidance for all field operations, but does not actually carry out any of those operations in dealings with taxpayers. District/field offices simply execute the annual work plans developed by the headquarters office.

Centralized Staffing

Centralized staffing ensures the adequate provision of personnel to a limited number of centrally located tax offices to carry out all of the core functions of tax administration efficiently and effectively.

Adequate Budget Support to Operations

Managers must have certainty that the resources allocated to them each year will be available as the expenditures become necessary. They must also have the authority and independence to manage their own budgets, while being held accountable for results and for efficient use of their allotments.

Internal Audit and Integrity Functions

Internal audit and integrity functions are emphasized here because, surprisingly, in many developing countries, these two functions are often the responsibilities of other governmental jurisdictions. Audits by internal audit staff of the tax administration are more effective than audits by auditors of central government audit departments, because, as discussed in Chapter 16, the former are much more knowledgeable about the tax administration’s financial controls and complex operations. An effective, independent integrity function helps to preserve public confidence in the tax administration personnel.

Typical Functional Structures

Typical functional organizational structures for headquarters and district/field offices are shown in the appendices to this chapter. In these, the district/field organizational structures mirror the structure of the headquarters to a large extent, but their respective roles are different as discussed above. In smaller tax administrations, some core and/or support functions are integrated at the district/field office level. This grouping of activities that require similar skills or specialties is an example of one of the strong advantages of functional organizations.
Successful Management Practices

The principal functions of management at all levels are planning, organizing, staffing, coaching (directing), and controlling. Organizational structures must have managers at all levels spend most of their official work time performing managerial functions. Higher-level managers especially should spend little time on the technical aspects of tax administration work. In the most successful tax administrations, tax officials in headquarters and district/field offices are given sufficient authority by law and delegated by the head of the administration to make and carry out technical and administrative decisions with a high level of independence, while being held fully accountable for their organization's performance. Successful management practices specific to tax administrations include not allowing taxpayers and/or their representatives access to compliance work areas.

Legal Services

Tax rulings often require extensive legal analysis, can have significant tax revenue implications, and may require the involvement of legal counsel with specialized tax knowledge. The legal function within tax administrations is subject to wide variation. In this chapter, a separate department has been presented. This department represents the tax administration in all legal proceedings with taxpayers. Its secondary roles include providing legal advice to appeals, helping to interpret legislation, assisting with tax collection and enforcement efforts that require court action, and helping government officials to negotiate tax treaties and international exchange-of-information agreements.

Computerization and Data Networking

To perform their respective jobs well, employees in all functions rely on information. Unless this information is accurate, complete, and timely, it becomes virtually meaningless. Taxpayers also benefit when the tax administration makes effective use of computerization and data networking systems, as this helps ensure timely registration and service and accurate taxpayer accounts.

4.2. Common Trends

Organizational Structure Trends

Despite the clear advantages of functional organizational structures for tax administrations, some countries have recently moved away from the wholly functional structures to either the client-type or hybrid structures. In addition, the segmentation of large taxpayers has been in use since at least the 1970s, and the trend to establish LTOs has gathered momentum in recent years.

Creative Organizational Structures

Many tax administrations have attempted to boost revenue at the least cost possible with special organizational units. Those that have designed and implemented centralized fiscal compliance centers, in conjunction with centralized automated tax returns and document processing centers, one-stop service centers, and problem resolution offices, have enjoyed a high degree of success.
**Outsourcing**

IT is the most commonly outsourced function. Some tax administrations have outsourced their centralized fiscal compliance centers to the private sector in hopes of improving compliance and revenue levels. Outsourcing to the private sector may work in some cases, but requires in-depth analysis of what can be outsourced, the legal issues, the expected costs and results, and a reference base that allows for periodic, meaningful comparisons of results and a determination of success or failure.

**Customs and Tax Administration – To Merge or Not**

Even in merged bodies, customs and tax functions under the same head usually conduct their respective operations independently for a variety of reasons, including dissimilar daily processes, different historical, cultural, and functional bases, concern at Customs about national health, safety, and security, difficulty in integrating IT, and dissimilar rates of modernization. The two should remain separate. However, ongoing cooperation, close coordination, and legal exchanges of information between tax administration and Customs is of great importance to the work of both agencies.

**4.3. Tax Administration Maturity**

At the lowest level of maturity, separate tax administrations are tasked with administering different types of taxes, and they do so without coordination (i.e., "each to his/her own"). As the administrations mature, they merge but "flounder," continuing to operate largely independently. As the administration "shapes up," specific, exclusive roles for each functional division are defined, and all core and support functions become a part of the organization. "Ship-shape" tax administrations at the highest levels of maturity have well-defined functional organizational structures, with all core and support functions present and with strong management practices.

**4.4. Latin America and the Caribbean**

LAC countries differ with respect to their levels of organizational and management maturity. Common problems include poorly defined headquarters and district office roles, lack of staff centralization, too much time spent by managers on technical work, non-existent delegation of authority, limited computerization, and missing core and support functions.

**4.5. Key Benchmarks**

A functional organizational structure at headquarters and operational offices is key. The strict division of roles between offices should be practiced, and the management practices described above should be exercised. Exit and entry criteria for taxpayer segmentation should be well-defined. In addition, the following ratios are indicative of good practice: 1) the ratio of human and financial resources allocated to the core functions and field operations is 70 percent; 2) the ratio of technical positions to administrative and support positions is 3:1; and 3) the ratio of active taxpayers to tax administrators is approximately 850:1.
Chapter 5. Registration

5.1. Leading Practice

An accurate taxpayer registration database enables effective compliance programs. The timely and accurate collection and recording of basic identifying information of the taxpayer permits the tax administration to understand its taxpayer base, staff itself accordingly, and plan other functions. The administration cannot manage its taxpayers if it does not know who they are, where they are located, and whether they are active or inactive.

Definition of Registrant

Registrants should be restricted to those who are obligated under the tax laws to file a return or pay tax directly to the administration. Leading practice dictates a simplified tax system, with a reasonably high filing threshold, and the introduction of final tax withholding on salaries, interest, and dividends.

Information Requirements

In general, the administration must oblige the taxpayer to provide any data required under the law and any additional data that it deems necessary to allow it to provide some assurance of taxpayer compliance. Taxpayers should not be instructed to provide superfluous data that is never used. A checklist of the minimum data required at the time of registration is provided in this section.

Some taxes, in particular property taxes, require ‘discovery,’ as the tax administration also needs to know the value of the taxable base, including the name, address, and value of the property. A separate property valuation system will be necessary and must interact with the taxpayer registration database.

Single Registration Process

It is preferred that the tax administration have a single, integrated registration process for all taxes. This reduces costs for both the administration and the taxpayer. It also gives the administration a complete picture of the taxpayer and permits it an integrated and comparable view across taxes. There are occasions when a single registration process is not possible, such as when separate administrations administer different tax types (e.g., property taxes are often administered locally rather than nationally).

VAT Registration Threshold

Although a "sufficiently high registration threshold" is difficult to determine, the threshold should be high enough to be realistic and limit the number of registrants to a number that the tax administration can effectively administer. Value added tax (VAT) registration can also be an entry point to fraud.

Taxpayer Identification Numbers

A unique, single taxpayer identification number (TIN) is essential for effective tax administration. The responsibility for issuing TINs should be restricted to the tax administration, and controls should be put in place to ensure that each taxpayer’s has a single TIN and that each TIN is used by only one taxpayer.
**Intra-Governmental Coordination**

Effective compliance monitoring requires third-party data for comparison purposes. In registration, the two key government agencies that gather and maintain relevant data are the agencies responsible for the business registry and for Customs. The tax administration and these agencies should share data regularly and, preferably, formally through bilateral memoranda of understanding.

**Registration and the Use of Automation**

The use of automation is essential in order to create and maintain an effective registration database. Automation also reduces compliance costs for both the tax administration and taxpayers through significantly reduced and more efficient processing times and procedures.

**Maintaining the Register**

The registration database should be maintained accurately and on a timely basis as new taxpayers come into being, cease operations, change particulars, undergo mergers and acquisitions, etc. There should be formal internal mechanisms to detect and report changes to the registry.

**Registration / Deregistration by the Tax Administration**

Many tax administrations have the authority to compulsory register taxpayers as well as to change taxpayers who cease operations, to inactive status, while continuing to maintain the taxpayer details in the registration database for the duration of the statute of limitations. This authority is important, since the effective management of taxpayers will only happen when the register is accurate.

**Administration and Organization**

Staffing needs to handle registration are limited, especially if the taxpayer database is automated. It is likely that one staff member processes applications and maintains the register at each location open to the public and at each (centralized) service facility. Registration section staff normally come under the purview of the taxpayer service function, as this is where the activity best fits operationally.

**5.2. Common Trends**

With web-based services and secure and integrated tax administration IT systems, provided the taxpayer enters his or her data accurately and the data are subsequently validated by the system, a taxpayer can be registered and allocated a TIN and electronic certificate in a matter of minutes. However, one key area of variance between emerging economies and developed countries is that developing countries prescribe numerous layers of approvals across the administrative functions, including registration. Excluding VAT, there are no good reasons to require the approval of tax registrations before granting them.

Some countries do not specifically provide for a taxpayer to register formally with the tax administration. This is not good practice.
Registration is generally not regarded as one of the key ‘compliance’ functions of the tax administration, but, technically, it does have responsibility for the discovery and registration of ‘non-filers.’ This topic is discussed further in Chapter 10.

The registries of many countries are either incomplete or out of date and generally unreliable. Guidelines, techniques, and tools for the maintenance of the registry are detailed in this section.

5.3. Tax Administration Maturity

The maturity model of this chapter describes tax administrations at the lowest level of maturity as "unaware" of their taxpaying population. Tax administrations develop by becoming aware, but their knowledge of taxpayers remains "unreliable," until they "formalize" the registration process. At the highest level of maturity, the taxpayer registry is not only formalized, but also "timely and accurate."

5.4. Latin America and the Caribbean

Taxpayer registration in LAC is described as formalized and simple, with electronic services and unique TINs. On the other hand, the registries of many LAC countries are incomplete or out of date and generally unreliable.

5.5. Key Benchmarks and Guidelines

The administration should check whether it is able to easily provide an accurate breakdown of total tax registrants into active/inactive categories. In addition, the administration should operate institutionalized ‘stop-filer’ and ‘non-filer’ programs. Information collected during registration should be used to align the tax administration's performance metrics to its operations. For example, the tax administration's knowledge of the size and location of its active taxpayers should be used to rationalize the location and staffing of its offices. Quantitative benchmarks include the time to complete the registration process (‘while you wait’), the percentage increase in the tax register due to the implementation of non-filer programs, and the time to process all amendments to the register (few days).

Chapter 6. Taxpayer Services

6.1. Leading Practice

Tax authorities must encourage and expect taxpayers to self-assess their tax liability and remit the relevant amount of tax. The taxpayer generally has better information on his/her sources of income and expenses, and it is relatively expensive for the government to assess every taxpayer’s return. Taxpayer service plays a critical role in maximizing voluntary compliance by providing taxpayers with the information and assistance they need to enable them to meet their tax obligations.
Organization of the Taxpayer Services Program

Taxpayer services divisions within tax administrations have various titles, but a typical organizational structure of the division is presented in this section.

Responsibilities of the Taxpayer Services Program

The taxpayer services division typically registers taxpayers, assigns TINs, and maintains the register. It interacts with taxpayers who visit, call, or write, operates service counters, responds to general inquiries, and provides forms and instructions. The division is also responsible for developing informational publications, conducting seminars on legal and procedural changes, and monitoring inquiries to determine the need for additional education or internal training. In addition, the division develops and maintains the administration's internet portal. Taxpayer services staff have the most interaction with the taxpaying public, so they need both good knowledge of laws and procedures and strong communication skills.

Developing and Implementing Effective Taxpayer Service Strategies

Implementing effective taxpayer services consists of: 1) identifying the target group of taxpayers; 2) determining the root causes of service demands (through feedback, surveys, focus groups); 3) using this information to establish a taxpayer-focused vision and mission; 4) developing a strategy that, consistent with the mission and vision, is focused externally, on the customer; and 5) implementing this strategy by ensuring that internal capacity and processes accommodate the externally focused vision.

6.2. Common Trends

Tax administrations are increasingly engaging taxpayers, soliciting their feedback, and making improvements based on information received. Tax administrations are also aggressively exploring the use of technology to migrate to self-service channels. In order to develop the most effective channels to assist taxpayers, tax administrations are evaluating the reason for taxpayer needs, the rationale for the channel option taxpayers use, and the taxpayer experience with the service.

6.3. Tax Administration Maturity

Tax administrations at the lowest level of maturity undertake an "ad hoc" approach to taxpayer services, with uncoordinated efforts and limited training for staff. As administrations develop, they "formalize" taxpayer services, recognizing the need to invest in education, information, and training. The administrations then "integrate" taxpayer services and develop major service-focused transformations across all functions of the administration. At the highest level of maturity, tax administrations undertake a "strategic" approach, whereby taxpayer services are a key concern of every initiative.

6.4. Latin America and the Caribbean

Almost all countries in LAC have initiated some form of taxpayer services program. Common approaches include information services (instructions, brochures, booklets, letter campaigns), assistance
(telephone, face-to-face), and information technology (for general information and secure access). However, while goals may be comprehensive and there has been improvement (e.g., taxpayer satisfaction surveys and web filing are common), implementation lags in areas (e.g., the ability to view taxpayers’ own records, web payment).

6.5. Key Benchmarks and Guidelines

This section lists several quantitative benchmarks, including time to respond to written inquiries (15-30 days), handling face-to-face inquiries (10-15 min), answering telephone inquiries (2-5 min), and resolving complaints (15-30 days). A number of performance measures are also suggested, including the percentage reduction in inquiries following outreach, changes in voluntary filing, and other measures.

Chapter 7. Filing and Payment

7.1. Leading Practice

Filing and payment are the primary obligations of the taxpayer, but may result in a heavy workload for the tax administration. Self-assessment is essential. In a self-assessment system, taxpayers are provided with information that gives them understanding of their obligations and enables them to calculate tax, complete returns, and remit the correct amount of tax at the right time. Although the administration reserves the right to audit returns, such intervention is used selectively and at a later stage. In this system, the law must contain the tools to require taxpayers to file and pay correctly, including provision for who should file, when and where the taxpayer should file, how returns should be amended, what should be paid, and so on.

*Encourage, detect, and deter noncompliance*

A simple legislative framework and simple and automated procedures enable taxpayers to comply voluntarily. Technology can be used to effectively and efficiently provide information to taxpayers and collect data and payments from taxpayers. Withholding is a common administrative mechanism to promote simplification. However, no element in the process should be overlooked. For example, filing begins with the tax return, and so the return should be self-explanatory, present a series of logical steps to calculate tax, provide logical information for the tax administration to verify calculations and perform validation tests, contain a guide to completing the return, and appear professional.

Simplicity and automation encourage compliance, while sanctions deter noncompliance. Guidelines on effective sanctions are provided in this section. Note that some taxpayers are deliberately non-compliant, while for others compliance is simply too difficult or expensive. In general, sanctions should encourage compliance and not jeopardize revenues. They should not be excessive or discretionary, should be subject to oversight and appeal, and should be complemented with programs to quickly detect noncompliance.
**Organization and Process**

There is no single way to organize the processing of returns and payments. In general, returns should be captured as soon as practical to allow the tax administration to know its taxpayers, and automation should support both filing and payment, since manual systems are costly and prone to errors. To safeguard revenues with limited resources, many countries distinguish between large taxpayers – responsible for a large portion of the revenue – and small and medium taxpayers – numerous, but responsible for a small portion of revenue and perhaps with poor and inefficient business organization. The latter require significant administration resources, attention to registration, and perhaps simplified processes and special tax regimes.

In all cases, the taxpayer and the administration benefit from electronic processes. E-filing is convenient, saves time, provides certainty and confirmation of return receipt, ensures privacy and security, eliminates data errors, and reduces the administration’s operational costs. E-payment – transfers from the taxpayer's bank account to the tax administration's account through the Internet – is also convenient, reduces costs to taxpayers, speeds up revenue collection, and provides the tax administration with reduced check handling costs and with timely information on payments. Where e-payments are less common, using the bank system can be convenient, accurate, and safe, and will negate the need for a costly cash office.

**Refunds**

Refunds arise naturally in many tax systems. Many countries have concerns about paying refunds promptly, as may be required by legislation, given that refunds can be prone to fraud. An important part of the solution is risk management. By processing low-risk refunds with minimal scrutiny, the administration can devote extra resources to those that are high-risk.

**Detecting non-compliance**

Traditionally, tax administrations detect non-compliance by post-filing assessment, where returns are checked for errors, payment is confirmed, and notices are sent to taxpayers. Computer systems automate this process. In addition, modern administrations detect stop-filers – taxpayers who used to file, but do not do so at present – and non-filers – taxpayers who have never filed. The early detection of these is essential, as such non-compliance impacts on revenue, arrears should be collected promptly while the potential for collection is higher, and detecting non-compliance helps institute a level playing field for taxpayers and confidence in the tax system. A process for stop-filer detection is described in this section. Non-filers are discussed in Chapter 10.

**7.2. Common Trends**

Tax administrations are exploring options for setting the level of sanctions by understanding taxpayer behavior through the use of a taxpayer compliance model, in which there are different levels (and reasons) for noncompliance and different approaches to addressing non-compliance.
Some countries require tax compliance certificates, which may act as civil sanctions, in that the temporary suspension of licenses to operate is intended to be a deterrent. This form of sanction should be used with caution, as it may restrain growth, job creation, and the ability of the taxpayer to pay.

Advancements in data mining techniques present possibilities for quickly detecting unusual refunds for further investigation. Anomaly detection models store information on what normal behavior looks like and identify deviations.

Tax administrations have explored options for automating taxpayer contact (e.g., the issue of notices, phone contact).

7.3. Tax Administration Maturity

The maturity model presents tax administrations in the early stage of maturity as "unfocused," as they do not provide or capture sufficient information to and from taxpayers. As administrations mature, they become "burdened by processing" and then "process-driven," as they institute processes to handle workloads. Mature tax administrations are "program-driven," as they undertake a holistic approach to the handling of taxpayer obligations and programs to encourage, detect, and deter noncompliance.

7.4. Latin America and the Caribbean

There has been substantial progress in recent decades in LAC. Standardized forms have been complemented with electronic filing and payment and information provided to the taxpayer to determine liability and assist in completing the forms. E-filed returns have grown rapidly. In several countries, electronic filing is virtually the only form of filing. Progress has also been achieved in detecting and addressing delinquencies. Computerization has allowed the administrations in most LAC countries to improve control of stop-filers. Thus, many LAC countries should be placed in the third or fourth level of the maturity model of this chapter. Nonetheless, many countries in LAC continue to struggle with cumbersome legislative frameworks, resulting in difficult compliance requirements.

7.5. Key Benchmarks and Guidelines

Key guidelines suggest that the tax administration should: 1) ensure that the tax law, subordinate legislation, and penalty structure are sound public policy instruments; 2) enable self-assessment, by providing the taxpayer with sufficient information to accurately determine their correct tax liability; 3) institute filing and payment procedures with minimal or, preferably, no contact with a tax official; 4) ensure that there is dedicated staff to identify and contact stop-filers; and 5) ensure that there are monthly statistics on returns and payments. Quantitative benchmarks focus on large taxpayers. Ideally, large taxpayers should be 100 percent compliant. To the extent that there are large taxpayer stop-filers, they should be contacted within 14 days of the return becoming overdue.
Chapter 8. Audit

Audits examine the declarations of taxpayers, not only to test the accuracy of declaration and accounting systems, but also to evaluate the credibility of tax liability. The taxpayer’s anticipation of such actions has preventive and deterrent effects. The preventive effect is the extent to which enterprises decide not to evade tax, because they are aware of audit activity and fear detection. The deterrent effect is the extent to which audit actions discover and stop taxpayers from continuing to under-declare or manipulate their liability.

8.1. Leading Practice

Legal Framework

A rigid legal framework makes the audit task more difficult, as it makes it easier for taxpayers to appeal assessment and other powers, claiming technical misuse of the law. Primary legislation regarding the carrying out of audits should be set in general terms of powers of access to taxpayer books and records and to inspect the taxpayer operating activities. Detailed procedures of audit should be set out in regulations to enable the administration to make changes to procedures without amendments to the law, as trends in business activity or accounting practices may change.

Structure and Management

Modern tax administrations separate responsibilities for the audit function between headquarters and district/field offices. Headquarters sets and reviews policy, makes forecasts, develops processes and procedures for management of the functions at district/field offices, monitors performance, and considers new concepts. In addition, headquarters monitors the law to ensure that the authority and powers of the auditors are transparent, fair, and equitable. District/field offices ensure all planned audits are carried out in the manner laid down by procedures developed by headquarters and that the auditors have enough training to carry out their work. Example organizational structures and responsibilities of the audit divisions in headquarters and district / field offices are presented in this section.

Audit Function Staffing

Audit staffing depends on the number of taxes involved, type of taxpayer activity, size of taxpayer, compliance of taxpayer, etc. Staff range from teams of specialist auditors for large or complicated taxpayers to single generalist auditors operating in remote areas or dealing with all aspects of taxation. Planning resources in an audit function is an ongoing task and should conform to the annual audit plan. The resource plan will be monitored to ensure targets are met and adjusted as necessary.

Overview of the Audit Process

At a high level, the audit function has three elements: 1) taxpayers are selected for audit during audit planning; 2) audits are conducted; and 3) the quality of audits is continually monitored. These are described below. Since it is impossible to audit all taxpayers, especially in one and the same way, the
first two elements use some form of case selection. During audit planning, risk analysis to test the credibility of the taxpayer has become a highly specialized undertaking. During audits, actions become more and more intense as taxpayer compliance is tested. In addition, audits are complex and require a system whereby both headquarters and district/field office managers are able to continually monitor and contribute to controlling each other's responsibilities.

**Types of Audits**

It is always preferred that various types of audit are developed by the audit division. Depending on calculated risk and expected returns, the audit types can vary from simple checks to in-depth inspections at taxpayers’ premises.

**Annual Audit Plan**

The annual audit plan sets out the overall number and types of audit case targets for the year. The plan combines audit objectives for the year from headquarters with previous experience from auditors, knowledge of areas in need of compliance, risk-based selection, outcomes from previous plans, and other information. When the plan is complete, district / field offices can begin assigning audit cases.

**Risk-Based Audit Selection System**

Since it is impossible to audit every taxpayer, tax administrations where laws require universal filing audit 10 percent or less of the total taxpayer population each year. However, with proper selection, audit will cover up to 90 percent of the revenue and provide for a sufficient number of audits to effectively deter non-compliance. To select taxpayers, tax administrations use risk criteria for those elements of compliance that can be measured within tax returns and within the historical performance of taxpayer responsibilities. Example risk criteria are provided in appendices to the chapter. The efficiency of a risk-based selection system depends largely on the quality and the number of the risk criteria used. In addition, the selection should be run (and the audit plan updated) on a regular basis during the year, as this ensures late filers are included in the overall risk assessment and scored accordingly. Finally, risk-based selection is impossible without automation.

**Conducting Audits**

Good auditors are developed with intensive, tax-specific training programs. A revenue audit is more than a financial audit, and the auditor should look behind accounting books, records, and operating processes to evaluate the credibility of returns. In addition, each audit must be carried out using a set of guidelines, usually in the form of a manual, developed by the audit division at headquarters.

The high-level process for conducting audits includes: 1) pre-visit planning; 2) interview with the taxpayer representative; 3) basic checks of books and records; 4) further checks of increasing complexity; and 5) audit closing. Planning is required, as the principles of risk require the auditor to have a clear idea of how the audit should evolve after the pre-contact analysis, based on potential risks. The stages above assist the auditor with continually exercising judgment to expand or contract the scope of audit as needed. The auditor is not bound by the scope of audit at any stage and can review
the scope of the audit to consider any relevant new information. Various details on the type of information that the auditor should consider is provided in this section.

**Audit Plan and Case Management**

As audits are carried out, cases are tracked and monitored at the individual level, but also with attention to how each case contributes to the overall audit plan targets. Headquarters must regularly analyze all factors (e.g., selection criteria, processes). The district/field offices must conduct regular analysis of their performance with regard to audit, both in terms of individual contributions and of overall performance against targets.

**Monitoring and Reporting**

The whole audit process from planning to case closure should be closely monitored with regular reports, produced by a robust management information system. Reports should measure the quantity and quality of audits and the revenue produced. Unless each stage of the audit process is managed effectively, the audit targets and objectives cannot be reviewed and adjusted as necessary.

**Audit Review and Quality Control**

Completed audits should go through a two-stage quality review: 1) all should be subject to a supervisor review, and 2) a sample should be selected for a strategic review. Both reviews appraise whether auditors followed audit manuals and other rules and regulations. However, the strategic review will also assess the audit for viability (lapses in documentation or other problems that might jeopardize the tax administration’s position), whether the result of the audit justified the time spent by the auditor, and whether the tax administration is being equitable in its administration.

**8.2. Common Trends**

**Specialization**

Modern tax administrations have extended the training of their auditors to new techniques and software to increase professionalism and effectiveness. Specialization approaches have ranged from recruiting specialist fraud recognition accountants direct from the profession to the in-house development of comprehensive training courses.

**Publishing Auditing Procedures and Techniques**

Whereas some administrations publish their entire auditing policy and methods, others insist on complete secrecy. Today, with generally more openness in government, less secrecy is the trend.

**8.3. Tax Administration Maturity**

Tax administrations at the lowest level of maturity are "unfocused," without audit plans and with contradicting audit policies. As administrations "look to improve," they recognize the need for risk-based selection, revise audit procedures, and prepare, but often do not implement, audit strategies. Tax
administrations become "focused" with clear audit policies, computerized risk-based audit selection, and a gradually improved audit strategy. As administrations place self-assessment and voluntary compliance at the center of all audit functions and plans, they become "strategic."

8.4. Latin America and the Caribbean

In LAC, audit planning is usually formalized. However, in general, audits are few in number, with outdated audit manuals, and limited variability in audit types. The heavy presence of informal activity leaves less room for sophisticated taxes and requires more reporting by taxpayers and more complex audits by the tax administration. However, many administrations fail to automate basic checks and demonstrate to taxpayers that they are proactive in identifying errors or liabilities that are not credible. There is also a general lack of legislation requiring exchange of information between government agencies.

8.5. Key Benchmarks and Guidelines

First and foremost, the tax administration should have a sound legislative basis for audit and access to taxpayer data, a risk-based audit strategy, modern automated audit tools, and regular monitoring and evaluation of the outputs of audit. Quantitative benchmarks discuss audit coverage (5-10 percent for jurisdictions with universal filing, with 100 percent of large taxpayers), staff time devoted to audit and fraud investigations (30-50 percent of total staff time), net revenue from assessments (2-8 percent of overall revenue), and the success rate of assessments (70 percent).

Chapter 9. Fraud Investigations

"Tax fraud" is committed by taxpayers who knowingly underreport substantial amounts of income and/or overstate substantial amounts of deductions to minimize tax payments. "Tax evasion" is the premeditated failure to register with the tax administration or failure to pay owed taxes. The fraud investigation division investigates both types of violations.

9.1. Leading Practice

Fraud investigators are the financial experts who identify and investigate complex financial crimes by taxpayers. Unlike auditors, fraud investigators use not only accounting and business skills to detect irregularities, but also rely on investigative techniques, information gathering, use of direct and indirect methods of proof, and the detection and gathering of evidence to prove criminal violations of tax laws.

Key Legal Provisions Required

The legislation must grant fraud investigators sufficient power to conduct their investigations, including requiring banks and other third parties to provide information, providing for sanctions and possible imprisonment for fraud and evasion, and giving authority to the tax administration to legally summons persons and documents. Fraud investigators should also have the authority to use circumstantial evidence to determine the proper tax due when books and records are absent.
Qualifications and Training for Fraud Investigators

In general, fraud investigators need accounting skills, excellent health, and the ability to handle firearms. Suggested training courses and skills are presented in this section. Fraud investigator training is highly specialized and investigators in many countries rely on the training provided by the U.S. Department of Homeland Security’s Federal Law Enforcement Training Center.

Implementing a Fraud Referral Program

One of the best sources of fraud investigations is the referral of potential fraud cases from tax auditors or collectors. Staff of the audit and collection functions should thus be trained to recognize signs of fraud. If, during a routine audit, a tax auditor detects signs of fraud, he or she will review the facts with management and will refer the case to fraud investigators.

Another source is third-party informants. A direct telephone line or a special address should be dedicated to receiving communications from other informants. Anonymity, for those who wish it, is guaranteed. A financial reward based on the amount of tax, penalties, and interest recovered may be given to the informant, as provided by law.

Organizational Makeup and Placement of the Fraud Investigations Component

In a large tax administration, fraud investigations are typically conducted from district/field offices. In medium and small tax administrations, the fraud investigations operations may be centralized in one or two key district/field offices. At the operations level in the field, there should be three main units in a fraud investigation division: 1) intelligence (providing recommendations for investigations), 2) investigations, and 3) quality review. The roles and responsibilities of these units and the steps of fraud investigation case development are detailed in this section.

The Role of the Legal Services Division

Legal services staff prepare legal cases, provide advocacy during judicial proceedings, and liaise with counterparts in the ministries of justice or security, the police, and other agencies. They also participate in the investigation of cases in progress by reviewing the legal aspects of these cases at least quarterly.

Relationship with the Ministry of Justice, Police Agencies, and Others

It is the responsibility of all the staff, particularly top-level staff of the fraud investigation division, to develop and maintain positive relationships with the judiciary and other Ministry officials involved in the prosecution of tax fraud and evasion cases. Coordination and collaboration with these officials is essential to ensure that all tax cases referred for prosecution are handled in a timely and effective manner.
9.2. Common Trends

Large Taxpayer Tax Fraud

Global automation by businesses has created tremendous opportunities for enterprises to hide financial transactions. Tax administrations around the world now train their large case auditors and fraud investigators in international taxation and industry specialized courses, such as telecommunications, banking, energy, and mining, to be able to perform effectively in the large enterprise world.

Computerization

Many taxpayers use computers to document and store financial data. Tax administrations of developed countries have begun to hire and train computer forensic experts, provide them with equipment for forensic data mining, and enable them to retrieve and analyze accounting data. In addition, similarly to audit and collections, the fraud investigation divisions have also designed computerized systems for risk-based case selection with the input of external and internal databases.

Tax Fraud Investigation of Corruption, Money Laundering, and Narcotics Trafficking

While the tax administration does not enforce drug laws, the enormous, untaxed profits of those engaged in these illegal activities are within the tax administration’s scope. Fraud investigators of some tax administrations have been able to prove fraud and evasion of large sums. However, such cases are time consuming and require extensive surveillance activities, joint activities with other law enforcement agencies, and evidentiary challenges in judicial proceedings. Taxpayers do not associate such cases with the consequences of non-compliance with the tax laws, which is a primary objective of fraud investigations. Therefore, such cases selected and ongoing at any given time should be small.

9.3. Tax Administration Maturity

At the lowest level of tax administration maturity, fraud investigations are simply "absent." As the tax administration matures, fraud investigations become a "junior partner," "partner," and "key partner" of the remaining compliance functions of the tax administration, with increasing legal authority, better collaboration with other functions and other government agencies, improving referral and informant programs, better experience, and greater success.

9.4. Latin America and the Caribbean

LAC countries in general lack important legal provisions to enable the fraud investigation function, such as provisions allowing access to third-party data. Financial crimes are often the jurisdiction of other authorities, and the fraud investigation function itself is generally understaffed, improperly placed within the tax administration’s organization, lacking capacity, and unable to rely on a good informant program or to collaborate effectively with the ministry of justice. Although there are some encouraging cases of prosecutions, the chapter places LAC countries in the second level of the maturity model.
9.5. Key Benchmarks and Guidelines

The primary focus on fraud investigations is to produce widely publicized prosecutions and convictions that serve as deterred to future crimes. Thus, benchmarks in this area should not be linked to revenue targets. Suggested quantitative benchmarks include total time spent by investigators on investigations (60-70 percent), number of discontinued investigations (less than 10 percent), and conviction rates (over 75 percent). Qualitative benchmarks should focus on whether the legal provisions, indirect methods, staff training, and risk-based methods are present for an effective fraud investigation function.

Chapter 10. Collections

While collections may seem to be a simple task, complicating factors include the culture of the country, the political environment, business practices, judicial policies, and previous taxation experience. There are some basic steps, however, that are common to successful tax collection efforts: rapid identification of arrears, assigning priority to cases of arrears (e.g., based on risk), increasing severity in each of a series of requests for payment, and taking collection action under the provisions of the law.

10.1. Leading Practice

Since the tax administration’s resources are limited, it is important to adopt a simple, understandable collection policy with procedures that are easy to automate and use. The tax collection policy should be one with procedures and policies that are selective (not all procedures and legal remedies are necessary or appropriate in every case), inexpensive, prompt, and proactive. In addition, the tax administration should apply risk principles to efficiently allocate staff to cases (organizational risk) and to focus on those taxpayers that may have the largest impact on collections (compliance risk).

A number of factors can contribute to the poor recovery of tax arrears. The legal framework is often the largest impediment. Internal organization and coordination within the tax administration or clearly defined policies, procedures, and responsibilities may be lacking. Operational resources, ranging from qualified staff to computers, telephones, and transport, may be inadequate.

An Action Plan at the Production Level – the Tax Collector

An effective system for managing collections is a three-stage process: 1) analyze; 2) prioritize; and 3) act. Collectors should analyze casework inventory to determine priorities and ensure the maximum recovery and the most efficient use of time. To prioritize work, the collector must be aware of priorities established by management and must be able to analyze files to determine risk of loss. Since a number of actions are available to the tax collector, he/she should first review the account to determine what actions have been taken to date and the results of those actions, before deciding on the next steps. The collector should document all actions taken to ensure the case stands up in court.

Case Management

It is a management responsibility to systematically review accounts to ensure the quality and effectiveness of collections. This minimizes organizational risks and may reveal whether changes or
improvements are required to operational policy or procedures. A number of management reports should be prepared on a regular basis. Tracking the components of a debt arrears inventory, such as intake and production, is critical for making appropriate strategic and operational decisions.

**Tax Collection – An Organization**

Collections divisions across the world differ and may be tasked with additional responsibilities, including the identification of non-filers, registration, or error resolution. Nevertheless, a typical organizational structure for the division is proposed in this section. In this organizational structure, headquarters should provide planning, support, and normative guidance. Collections staff of district/field offices execute the annual collections work plans developed by headquarters.

The collector has a number of responsibilities, including the review of assigned cases and supporting information, requesting information from the taxpayer or third parties, verifying compliance, determining the taxpayer's ability to pay, and developing and implementing an action plan for collections. The collector must understand the collection process, compliance requirements, and the taxpayer's financial position. The supervisor is responsible for managing subordinate staff and their workload. The supervisor is concerned with work quality and is required to ensure that the staff receives any necessary training. The senior manager may be responsible for a number of collection teams and should ensure that the procedures are kept updated and regular management reports are prepared. The senior manager is usually also responsible for good communication with the IT staff so that various reports and taxpayer information are available.

**General Concerns**

The following are general concerns:

- In all cases, before a case is referred to a collector, the taxpayer should be notified of pending actions, including via a notice of assessment and subsequent reminders.
- At times the taxpayer will not cooperate, and it becomes necessary to contact third parties (the taxpayer’s financial institution) directly to obtain information. Tax laws should contain a provision to issue a legal demand to third parties for information.
- The personal security of the collector is always a concern. Collectors must always be cautious and look for any indication of the taxpayer’s past attitude and or behavior.
- The ability to take collection action should have time limitations set by the law, during which certain actions can be done. Continually reviewing aged accounts receivable is critical to ensuring that these time limitations do not bar a collection action.
- The tax laws will usually have provisions that allow a taxpayer to object to or appeal an assessment or an administrative process. If there is any indication that the taxpayer’s financial circumstances are significantly deteriorating, the collector should consider jeopardy collection actions, including whether it can be accomplished under the legal framework.
**Payment Arrangement**

Payment arrangements, usually a matter of administrative policy, facilitate the taxpayer in paying over a period of time. If the taxpayer has the ability to pay in full, the taxpayer should be requested to do so. Where this is not possible, an arrangement which pays off the entire outstanding debt in the shortest time possible and at the least cost to the tax administration may be considered. "Least cost" also means without any unnecessary intervention or follow-up by tax administration staff.

**Sequencing Collection Enforcement Actions**

The steps most often followed are: offset of any refunds due; garnishment on bank accounts or wages; issuance of demands on accounts receivable; court action for seizure of assets (movable and immovable property); notice of public auction; auction or redemption of property; disposition of proceeds; and write-off of uncollectible amounts.

**Offsets**

Most tax administrations will set up a process with the central financial government agency to "set-off" a government payment to a tax debtor and pay the amount instead to the tax administration.

**Garnishment**

Garnishment is an administrative process requiring a third party, who owes money to a tax debtor, to instead pay the money to satisfy a tax debt to the tax administration. To properly complete the garnishment process – and other actions and tools in this chapter – collectors must ensure that:

- The correct amount of debt has been established and no other taxes are also in arrears;
- There are no payment arrangements in place;
- The ability to pay has been determined (e.g., the tax debtor is not bankrupt);
- Audit has been contacted to confirm if there is any audit in progress;
- The appropriate legal amount of time, within which to pay the debt, has been provided;
- Most importantly, all voluntary collections efforts have been exhausted;
- All actions have been carefully documented so the correct source can be garnished;
- The tax debtor has been notified at appropriate times and all notices have been mailed or otherwise delivered to the correct addresses of last standing;
- The garnishment forms have been carefully prepared, signed by the delegated authority or processed by the court, as may be applicable, and property served;
- Follow-up procedures for receipt of the payment have been set up;
- Non-compliant third parties have been addressed;
- The garnishment has been properly withdrawn; and
- Management has reported on the number and value of accounts garnished.
Specific legislative provisions that define the power to garnish are provided in this section. A lack of case preparation and documentation to get the tax debtor to pay voluntarily is often a cause for governments to suspend or place further restrictions on this power.

**Liens**

A lien is an encumbrance on property to secure a debt the property owner owes to the person placing the lien. A lien can carry with it the right of the creditor to sell property to obtain the money. Sample legislative provisions for liens are described in this section. Similar to garnishments, liens must be considered carefully, as, with the lien, the taxpayer may not be able to borrow in order to pay or to continue his/her business. The lien should encourage the taxpayer to settle the debt – it is a warning that further action is possible. Seizing and selling the property is the last resort, since it is time consuming and not without problems.

**Seizure and Sale of Property**

Seizure and sale of a tax debtor’s assets should only be used after all other efforts to collect have failed. As always, the case history must be well documented with all actions that have been taken in order to show the justification for seizing a taxpayer’s assets. The decision to seize must be based on the specific facts and circumstances of each case, and the collector must follow all legal and procedural guidelines.

**Other Tax Collection Powers**

There are extreme circumstances (e.g., the taxpayer is trying to leave the country) where collectors would work with counsel to prepare statements of facts, risk analyses, affidavits, and other briefs for counsel to be able to make an “ex-parte” (in the absence of the taxpayer) application in court to get remedies that may not be available under the tax legislation. In some cases, legal counsel could use the regular court system and rules (outside of the tax law) to stop taxpayer transactions and have the money redirected to the tax administration.

**Non-Filer Identification**

'Non-filers' are taxpayers who have tax liability, but are not registered with the tax administration and do not file tax returns. Prior to computerization, the discovery of non-filers was a manual operation that consisted of scouring trade directories, telephone books, newspaper advertisements, and even walking the streets. Most tax administrations now have progressed to, at a minimum, a "matching operation" between various databases (e.g., the business registry) and, after discovery, making initial contact with the potential taxpayer by the most efficient and effective means available.

**Writing off Tax Debts**

Modern tax administrations can write off tax arrears that are considered uncollectible. This frees resources from attempting to collect these debts and presents the government with a more accurate picture of the amount of arrears that have potential for collection. An example of the write-off process and indicators, under which a debt may be considered for write off or when it may be returned to an
active status, are presented in this section. A write-off should be considered only when the liability is no longer in dispute (e.g., the amount is not the subject of an appeal or objection). In some countries, a partial write-off (or “write-down”) is permissible.

10.2. Common Trends

Data Integrity

Many tax administrations encounter data integrity and reliability issues concerning arrears. A common solution is to verify the account balance with a special notice to the taxpayer to verify or provide documentation to dispute the amount within a specified time. More importantly, to eliminate many of the above-cited problems, countries are rapidly implementing e-filing and e-payment.

Transfer of Tax Debt Liability

Some tax administrations have the authority, under defined circumstances, to transfer a tax liability (usually of trust fund taxes) from a tax debtor to a third party. Some administrations can transfer debt to a person, who has a "non-arm’s length" relationship (e.g., a relative) with a debtor, if that the person receives property from the debtor at less than market value or with the intention to defeat collection.

Initiatives for Potential Non-Filers

Data matching is an effective way to identify specific taxpayers for further action or investigation. Larger tax administrations have this capability in-house. One possible solution is for smaller countries to contribute to a center of expertise that is loaned on a rotating basis to countries in the group. A second solution is targeted data matching, where the administration compares its registration database to smaller datasets with a specific purpose, rather than, for example, the comprehensive business registry.

Tax Clearance Certificates

Taxpayers who are seeking public sector contracts or certain licenses, such as casino, Customs bonded warehouse, Customs broker, etc., may be required to obtain a certificate from the tax administration. To do so, the taxpayer must be registered and have all tax affairs current or with valid payment arrangement. Some countries have extended the requirement for a certificate to importers of goods or require a certificate before a person is allowed to board an aircraft.

Tax Amnesties

Amnesties are neither a fix to compliance problems nor do they provide sustained revenue increases. An amnesty can cause a brief revenue increase, but are not likely to generate sustainable new revenue unless accompanied by implementing measures to strengthen the administration. If the tax law provides the necessary legal framework, and there are well-structured administrative collection and enforcement policies that are, in fact, administered, then a tax amnesty should not be necessary.
Privatized Tax Collection

The government may pass on its obligation to collect taxes to private companies, in return for a fee. This contrasts with "tax farming," where a private individual or organization pays an amount to acquire a tax debt, and thus gives the government revenue certainty, and subsequently recoups that payment by collecting money from the people within a certain area or business.

10.3. Tax Administration Maturity

Collection functions in tax administration at the lowest level of maturity are "reactive." They might follow up outstanding amounts, but do not actively identify delinquent taxpayers. As collections develop, the function begins to undertake "ad hoc" compliance programs, using enforcement tools and procedures occasionally, but not systematically. As the collection functions becomes "systematic," compliance tools and programs are undertaken regularly and are automated. As the collection function becomes "strategic," it undertakes risk-based approaches to identifying delinquent taxpayers and cost-benefit approaches when pursuing collection actions.

10.4. Latin America and the Caribbean

Despite considerable technical assistance from various organizations in recent decades, the general state of tax collection in the LAC region leaves room for improvement, as evidenced by the large stock of older tax arrears in most countries. A well-functioning collections program requires a proper organizational structure, modern legislative provisions, an IT system that provides users with the necessary information, and modern management principles. In addition to these basics, the importance of an appropriate culture within the tax administration is often overlooked. LAC counties have looked to improve collection efforts with various strategies, including developing reliable taxpayer identification systems and rewarding collectors, but much remains to be done.

10.5. Key Benchmarks and Guidelines

Assuming an adequate legal framework, prioritization, and automation are in place, virtually all taxes of large taxpayers should be paid on time, leaving no tax arrears. With respect to small and medium taxpayers, variations in the ratio of the aggregate year-end tax arrears (excluding disputed debt) to aggregate net revenue collections should be examined over time. The OECD notes that this indicator varies, but the majority of countries have a ratio of less than 5 percent, and some are between 5 and 10 percent. Another ratio, similarly examined over time, should be debts written off to year-end tax outstanding.

Chapter 11. Objections and Appeals

Objections and appeals arise naturally with self-assessment, when taxpayer filings are reviewed or audited by the tax administration. Since a review of literature reveals relatively little, other than an acknowledgement of a process that usually begins internally ('objection' or 'administrative appeal') and may subsequently escalate to the courts ('formal appeal' or 'judicial review'), the chapter provides a
general outline of the various themes usually encountered. First, objections and appeals are often clouded by taxpayer concerns about credibility. A perception of independence and professionalism of the reviewing body are essential. Consequently, training of tax administration staff who handle appeals is also an issue. Timeliness is important, as neither taxpayers nor the tax administration benefit from the uncertainty in a long dispute process. Appeals can be expensive for both the tax administration and the taxpayer. Finally, many problems with the objection and appeal process relate to small and medium taxpayers, as these taxpayers may have limited access to the appeals process.

Appeals take an excessive amount of time. As a result, many countries have removed requirements to pay the tax under appeal. However, where appeals suspend collection action, taxpayers can use the process to thwart legitimate collection actions or to buy time to remove assets from the reach of the administration. A requirement to post security when filing an appeal is an accepted general practice.

### 11.1. Leading Practice

A good objection and appeal system requires: 1) the independence of appeals officers and bodies; 2) adherence to the principles of natural justice ("hear the other party"); 3) reasonable preconditions for filing an appeal (e.g., paying some or all of the disputed tax in advance or paying interest upon losing the appeals); 4) a time-bound appeals process with speedy resolutions; and 5) the effective resolution of the majority of cases at the lowest levels of the dispute resolution structure.

#### Appeal Grounds and Documentation

The written objection should include the detailed grounds for the objection and various information (discussed in this section) to allow the tax administration to appropriately address it.

#### Appeal Process

The first stage of the appeals process – the objection – should likely be conducted within the tax administration, as this is cheaper, provides a level of quality control to the administration, allows for timely settlements, and provides access to small and medium taxpayers through existing tax administration offices. As the case progresses through the legal system, it becomes increasingly formal, expensive, complex, time consuming, and legally burdensome. Complex tax appeals, such as cases where the dispute is centered on different interpretations of tax law, should be resolved in formal court proceedings. In addition, appeals by large taxpayers should be resolved in accordance with a formal process better suited to cases with sophisticated taxpayers and significant amounts and/or principles.

#### Tax Litigation

If the taxpayer commences an action in court, the legal department of the tax administration should become involved and should obtain the case file from the appeals division. The level of involvement and responsibilities of the legal staff of the tax administration are detailed in this section.
**Taxpayer Access to Information**

Tax administrations, as part of their obligation to provide sufficient information to enable taxpayers to self-assess and comply with the tax law, should provide clear guidance on taxpayer rights when they disagree with an assessment. This includes a synopsis of the appeal process, detailed procedures, time limitations, and how to make a request for an extension of time to file an appeal. The tax administration should also keep the taxpayer informed of the status of their objection.

**Mediation and Compromise Settlements**

Mediation should be available to small and medium taxpayers. Mediation should be on qualitative rather than quantitative considerations. Mediation is a simple and cost-effective method to resolve disputes where the principles involved may not necessarily be complex.

**Costs**

The costs of litigation borne by the government can be substantial. In some cases, a settlement should be negotiated. In addition, since the tax regimes are complex, there should be an emphasis on simplifying the system for small and medium taxpayers. Third, some countries have a legislated "fairness" policy, which can be applied where any or all interest or penalty owed by a taxpayer can be cancelled because of a delay or an error by the tax administration, circumstances beyond the control of the taxpayer, or the taxpayer’s inability to pay. In many countries, there is ability to write-off tax, penalty, and interest, if these are considered as uncollectible.

**Payment of an Assessment**

A taxpayer may or may not be required to pay all or part of the tax amount in dispute before an objection or an appeal can be resolved. To deter frivolous appeals, paying a deposit should be considered, except in cases of financial hardship for the taxpayer.

**Objection Time Frame**

Normally, the time to file an objection ranges from 20 days to 90 days after the date of assessment, and the appeal must be filed in the manner described in the tax law. Sometimes, there is legal latitude to accept an objection after the time has elapsed, if there are reasonable grounds for the delay.

**Taxpayer Perception**

The tax administration should make an effort to gauge taxpayers’ perception of the objections and appeals process and whether they received impartial, timely, and objective treatment.

**Understanding the Taxpayer Appeals System**

Selected fundamental statistics are provided to assist in determining the "health" of the appeal system.
11.2. Common Trends

Many of the challenges faced by tax administrations are related to offering quality services to small and medium taxpayers. These taxpayers are numerous and diverse and may have poor knowledge of tax laws and basic accounting systems. Some countries have attempted to introduce an informal appeals process (outside of courts), but with limited success. At the same time, many countries may not have a robust taxpayer services program, which is an impediment to small and medium businesses.

Timeliness

Problems with the timeliness of appeal resolutions have resulted in some countries imposing stricter time limitations on the tax administration to resolve appeals or penalties on the tax administration, including a default judgment in favor of the taxpayer.

Tax Ombudsman

The independence, objectivity, and impartiality of the tax administration may be questionable, if the first level of appeal is staffed by tax administration staff. In some countries, a dedicated tax ombudsman investigates complaints concerning the tax administration. Generally, the ombudsman only has the authority to investigate service-related complaints, examples of which are detailed in this section.

11.3. Tax Administration Maturity

The objections and appeals function begins as an "informal" one, but, as tax administrations mature, becomes "legislated" and "institutionalized." Rights and procedures are firmly placed in the law and regulations, the process becomes somewhat automated, and information is provided to taxpayers in a timely manner. At the highest level of maturity, objections and appeals are "streamlined," following consistent procedures and providing timely resolutions.

11.4. Latin America and the Caribbean

There is little data on appeals, save for the general appeals process, around the world and in LAC. The tax laws in LAC countries usually regulate the general appeals process, and all administrative actions that impose obligations or deny taxpayer rights can be appealed, although the appeals path and processes vary. However, appeals often result in delays in collections, as many taxpayers abuse appeal rights. Recently, there has been a decrease in the number of appeals in LAC countries, although it is not clear whether this is due to changes in tax administration procedures or to lack of control. At the same time, CIAT data show an increase in the percentage of unresolved cases. While LAC countries may provide for appeals, many fail to define an administrative appeals system. In these cases, the laws instead leave the definition of the administrative appeals process to the tax administration, without adequate assurances that objections will be dealt with in a timely manner.
11.5. Key Benchmarks and Guidelines

Countries vary widely with respect to quantitative measures related to appeals. A number of qualitative guidelines are suggested. Adequate time, opportunity, and information provided to the taxpayer, independence of the appeal review, and reasonable preconditions for filing appeals are essential. Sanctions should be used to discourage frivolous appeals. The number of appeals should be limited with the help of advance rulings. In addition, the tax administration should provide assistance to small and medium taxpayers and should institute a process that resolves the majority of appeals at the first appeal level.

Chapter 12. Information Technology

IT enables tax administrations to better gather and analyze information, proactively manage workload and resources, foster a cooperative engagement with taxpayers, and standardize the treatment of taxpayers, facilitating the uniform application of the tax law.

12.1. Leading Practice

The Role of IT in Tax Administration

Historically, IT assisted with the core tasks of processing returns and payments and collecting relevant information. Today, IT also facilitates voluntary compliance by opening multiple interactive and electronic channels with taxpayers, and helps compliance monitoring and enforcement by collecting and managing compliance related information. In addition, as with any organization, modern IT facilitates decision-making by getting the right information to managers and staff. These are the modern four components of the IT solution landscape in tax administration – the core tax system, the e-tax system, the compliance performance system, and the management information system. Each of these is described in turn in this section. Specific attention is given to the ways in which IT supports each of the core functions of tax administration.

Sequencing of IT Improvements

First, the tax administration should use IT to support registration which provides the tax administration with the basic information necessary to manage its taxpayers. Second, the tax administration should automate heavy processing and resource intensive functions (taxpayer accounting, filing, and return, payment, and refund processing). Efficiencies in these allow the administration to redirect resources to risk-driven audit and cost-benefit driven collections, and will reduce the costs of compliance for taxpayers. Third, IT should be used to enhance compliance activities and further reduce the cost of compliance for taxpayers.

IT Support Organization

Tax administrations are often a part of larger organization (the Ministry of Finance) or may be semi-autonomous or autonomous revenue authorities. In either case, they usually have an overarching mandate for the use of technology, and a dedicated IT department or division is needed. Dedicated IT
departments, however, often lack the competencies and infrastructure to quickly respond to change. Reliable IT services also require that infrastructure is provided and managed in a consolidated manner. Dedicated departments are provided with the infrastructure, reducing their burden of properly maintaining it themselves.

Service level agreements (SLAs) should be a part of the infrastructure consolidation efforts. The SLA describes the IT service, documents service level targets, and specifies the responsibilities of the IT provider and user. SLAs are established between the IT department that maintains the infrastructure, and other departments, including the dedicated IT section of the tax administration.

There should be a single point of contact between the IT organization and its customers. A "service desk" serves this role and manages incidents, service requests, and other communication with the users.

Another need is a central organization that issues policy for IT purposes. To minimize security and information integrity risks and leverage economies of scale for technology procurement, IT organizations follow a single, coherent policy, aligned to the overall organizational strategy and business policies.

12.2. Common Trends

Commercial Off-The-Shelf and Custom-Built IT Systems

Custom-built and commercial off-the-shelf (COTS) solutions are at the two extremes of the IT implementation spectrum. This section highlights the differences between the two and the key decision factors that impact the tax administration's choice of one or the other.

**IT as a Service Organization**

IT organizations are increasingly becoming service management oriented organizations. They deliver value to customers by facilitating outcomes that customers want to achieve without having to bear specific costs and risks.

**IT Organization Consolidation**

Consolidating multiple IT sections under a single IT department is ambitious. It often faces internal resistance from departments accustomed to having direct access to their IT application resources.

**The IT Solution Decision**

Custom-built and COTS IT implementations may contain the same components, but impact the cost, time-to-market, and usability of the solution differently. In addition, IT is a business decision that should consider strategic objectives and costs and benefits. The sequence of selection steps should include the identification of requirements, an assessment of existing systems and capabilities, and a comparison of solutions options.
12.3. Tax Administration Maturity

Tax administrations begin as "paper-based" organizations, perhaps supported by basic software, such as Excel or Access. They introduce IT slowly and in a "disjointed" manner, typically first to core functions and with limited coordination of processes or information. At the third level of maturity, IT "supports" the tax administration, but IT solutions are not necessarily integrated. IT in mature tax administrations is "integrated," with sufficient, regular, and timely information across types of taxes, administration functions, and the solution landscape described above.

12.4. Latin America and the Caribbean

LAC countries have made significant progress in the application of IT to support tax administration. This, however, has usually been the result of focused efforts to improve a specific component of IT support, rather than improvements across the IT solution landscape. Particular focus has been given to taxpayer services and return processing. Progress in other core functions has varied.

12.5. Key Benchmarks and Guidelines

Three quantitative benchmarks are cited in this section: IT spending as a percentage of operational expense (11 percent), IT spending per employee ($16,172), and IT full-time equivalents as a percentage of employees (7.0 percent). Qualitative guidelines include:

- The use of IT is not a choice, but a necessity of modern tax administration.
- Process simplification and business reengineering are prerequisites.
- The use of IT evolves alongside tax administration practices. Tax administrations should be mindful of the sequencing of IT improvements discussed above.
- Implementing IT requires a strategy. Changes in legislation must be implemented, organizational structures may have to be redefined, and enhanced operational procedures should be developed.
- IT is a service. IT supporting organizations must evolve into service-oriented organizations, but this is a long path that should be carefully planned and executed.

Chapter 13. Human Resource Management and Organizational Development

Tax administrations rely heavily on personnel to carry out activities, and human resource management is a key issue.

13.1. Leading Practice

The human resource (HR) function should consistently and efficiently support the tax administration’s need to utilize high performing employees effectively and, specifically, line managers to effectively manage employees to accomplish their departmental business goals.
Selection and Placement

Although the recruitment protocol for a tax administration is usually established by the government, one way to confirm that a candidate has the appropriate traits for the job is to follow the protocol of 'behavior-based' selection – selection based on the knowledge, skills, and behaviors that directly relate to those needed on the job. The steps in selection include: establishing selection criteria, identifying effective recruiting sources, and interviewing and selecting qualified candidates.

Staffing Levels

There are variations in the staffing of functions amongst tax administrations. OECD statistics, however, indicate similarities in the staffing allocations to high-level functions (30 percent to taxpayer management and services, 32 percent to audit and verification, 10 percent to enforced debt collection, 15 percent to corporation management, and 13 percent to other). Differences are largely shaped by the level of use of self-assessment, automation, consolidation of tasks in data processing and customer service centers, outsourcing for functions such as IT support, number of staff included in overhead costs, and the size and organizational structure of field offices.

Education and Skills

Actual attainment of university level education is a good start when striving for more qualified staff, although statistics vary widely across counties. In addition, tax administration staff at all levels could come into direct contact with the public, so all staff need good interpersonal skills and an ability to deal with confrontational situations. The need for educational qualifications should be specified in complete job descriptions that should be developed for each position.

Training and Development

Training that is applicable across the civil service, such as induction training, ethics, project management, and leadership skills, is often offered through civil service or, increasingly, outsourced to private companies. Tax administrations, however, must develop specialized technical training. Tax administrations typically rely on a systematic approach to developing training programs, by identifying what learners currently know, defining what they need to know, and creating an intervention to bridge the gap. Additional detail on this approach is provided in this section.

The components of three additional programs are discussed in this section. 'Induction' is the process during which employees adjust or acclimatize to their jobs and working environment. A formal career development program facilitates the effective utilization of employees and allows employees to match their job skills and interests with opportunities for development and advancement within the tax administration. The management succession plan is the formal process that identifies developmental activities to prepare an employee for management positions with greater responsibility. It establishes a method for identifying successors to each key management position.
Performance Management

Performance management is the process of managing tax administration employees and teams based on established performance expectations and measured performance results. The process means that line managers consistently: 1) define performance requirements and expectations; 2) communicate performance expectations to individuals and teams; 3) measure the actual performance in relation to the desired performance; and 4) give regular feedback and rewarding desired performance. HR supports line managers by providing activities and programs that facilitate this process.

Staff Satisfaction and Engagement

Organizations that are able to communicate a meaningful connection between employees and the organization’s core purpose perform better than those that do not.

Compensation

A number of compensation strategies are presented in this section.

13.2. Common Trends

Separate Employment or Budget Conditions

The SARA is one approach to implementing separate conditions for tax administration staff, as discussed in Chapter 3. As an alternative, some tax administrations have considered rewarding tax officials based on the amount of annual revenue collection. This has had many disadvantages, as discussed here and in Chapters 10 and 14.

Staffing Levels

Statistics on overall staffing in tax administrations show a trend toward fewer staff. As tax administrations gain more operational efficiencies through increased reliance on electronic transactions and information flow, improved workplace technology, increased automation, and reorganizing workflows along functional lines, the need for staff is reduced.

13.3. Tax Administration Maturity

At the lowest level of tax administration maturity, the HR function is "basic," with missing or outdated job descriptions, training curriculum, pay scales, and services in general. A "developing" HR function recognizes that it can play a strategic role in the tax administration and undertakes analysis to improve its services. When the HR function begins to provide vital, modern services, it "consolidates" its core functions of hiring, retention, development, etc. and tracks the level of satisfaction of its stakeholders. A "leading" HR function is a strategic partner of the tax administration, with policies conducive to building capable and motivated staff.
13.4. Latin America and the Caribbean

CIAT statistics show overall levels of staffing in tax administrations in LAC that are consistent with those medium-to-high income countries. These staff are appropriately distributed, with perhaps larger staffing devoted to tax control (e.g., collections). Although LAC leads the world on the establishment of SARAs, pay scales in LAC tax administrations are generally lower than those of positions with similar skill sets in the private sector. Recruitment processes are well established and, according to CIAT, "impeccable." Over 50 percent of employees possess university degrees, which is higher than the OECD average. Continued training has been prioritized, and most LAC tax administrations have training departments that utilize both classroom and distance training to teach management and technical topics.

13.5. Key Benchmarks and Guidelines

A number of key questions in this section can be used to indicate whether staff satisfaction improves over time. In addition, quantitative benchmarks draw on statistics listed in the rest of the chapter and include the ratio of taxpayers to staff (850), distribution of staff (as described in section 13.1 above), pay scales (consistent with the private sector), and other.

Chapter 14. Budget Planning and Resource Management

Government budgeting is the process of allocating limited financial resources to deliver services (roads, hospitals, education, law enforcement, etc.) that meet the needs of citizens. To carry out its tasks effectively and efficiently, the tax administration requires adequate staffing, equipment, and working facilities, and a carefully prepared budget is critical. A good budget hinges on sound projections that are based on realistic assumptions and a clear means of attaining deliverables.

14.1. Leading Practice

The typical government budget process is outlined in this section.

Strategic and Budget Planning Linked

The budget planning process can be a valuable tool for continuous improvement of agency programs and, hence, it is often linked with the agency’s strategic plan. If done effectively, the agency properly budgets for each item in the strategic plan, which serves as the roadmap for everything the organization does on a daily basis.

Budgeting Methodologies

This section outlines the differences, advantages, and disadvantages of top-down and bottom-up budgeting and of line item, program, performance, and zero based budgeting. Although line-item budgeting has historically been the most widely used, performance-based budgets are becoming more common.
**Budget Preparation**

In the tax administration, budget formulation starts at the headquarters office, well in advance of the start of the fiscal year, and with top-level officials considering the impact of applicable government directives and resource ceilings, long-term strategic objectives, and historical performance data. Deliberations include the development of annual work plans for functions, from which costs for the budget formulation can be computed. The process must be inclusive, and each of the division heads, with input from subordinate managers and coordination and approval of the district-field office director, develops and submits to headquarters an annual work plan. The final proposed budget for the administration reflects a consolidated and complete view of the resources needed to effectively deliver the administration’s programs.

**Developing Cost Estimates**

Agencies should prepare estimates of the actual costs for delivering program results for every planned activity. The typical costs to deliver tax administration programs are outlined in this section. Budgets should also require justifications for each budget category and how the agency arrived at its cost estimates. Tax administrations must be able to show how the allotted resources will ultimately enhance revenue collections (directly or indirectly).

**Managing Budget Execution / Implementation**

During budget execution, the tax administration should ensure that the available financial resources are directed towards achieving the program deliverables outlined in the strategic plan for which the funds were appropriated. Each unit is responsible for evaluating programs and projects to ascertain whether they are meeting targets and objectives on an ongoing basis. Most tax administrations have monthly reporting of key performance indicators for program deliverables. The tax administration should assess not only the effectiveness of the program, but also the effective use of the allotted budget.

**14.2. Common Trends**

Many tax administrations have evaluated options to secure the resources needed to deliver programs. One area receiving increased attention is self-budgeting based on a percentage of revenue collected. Opponents have expressed concern that tax administrations that are paid based on revenue collected may use pressure tactics to collect the maximum amount. In some countries, the actual annual budget disbursements to the administration have historically been less than the specified percentage. Thus, some have argued that the administration should deduct their allowable percentage first, and then transmit the balance to the general account. This practice should be discouraged as it creates a disincentive to spend money efficiently.

Another issue gaining increased attention is the policy adopted by many governments whereby unspent funds lapse at the end of the year. This practice encourages managers to use funds near the end of the fiscal year for fear of budget reductions in subsequent years. This year-end spending spree, however, also may not lead to the most effective use of resources.
14.3. Tax Administration Maturity

At the lowest level of tax administration maturity, the budgeting processes are "scattered." Not all financial management practices are in place, and managers, although typically aware of costs, are not aware of impacts of spending. Planning and monitoring are limited. The administration's budgeting processes become "basic" when financial management practices are in place. This, however, does not ensure effectiveness or efficiency, and planning and monitoring may still be limited. The budgeting process becomes "rigorous" as the administration begins to produce strong cost estimates and gain some understanding of the impacts of spending. When the tax administration understands impact and planning and monitoring processes are of sufficient quality, budgeting becomes "strategic."

14.4. Latin America and the Caribbean

Many LAC countries have introduced performance-based budgets and, in some, linking goals to budgets is required by law. However, in some LAC countries, performance information is not discussed or otherwise used during budget planning and preparation, while in others the budget preparation process is rushed and/or budgets are amended multiple times during the year. The cost of collection in LAC countries remains high on average when compared to that of OECD countries.

14.5. Key Benchmarks and Guidelines

Quantitative benchmarks in this chapter focus on the distribution of tax administration budget allocation to staffing and other costs, such as expenditures on IT over total expenditures (11 percent), the cost of the collection function over total expenditures (30 percent), and expenditures on salaries over total expenditures (70 percent). This section also lists key questions to allow the tax administration to evaluate its budgeting processes internally.

Chapter 15. Strategic Planning

Strategic planning is a management tool used to guide the deployment of resources and provide focus on key activities and measurements of achievement in attaining the vision of the organization.

15.1. Leading Practice

The strategic planning process requires articulating where the tax administration wants to be, identifying the key problems/challenges, and defining key goals and the options for achieving these goals. The strategic plan helps to focus the entire tax administration’s resources and efforts and guides all parts of the tax administration towards the same goals. The end product of the strategic planning process is a collaborative set of decisions on the objectives or goals about what to do, a justification for why do it, and, through a series of actions and projects, an approach on how to do it.

Introduction to Strategic Planning

Strategic planning should not be confused with business planning. The strategic plan establishes broad objectives, whereas business plans provide the detailed steps to accomplish individual projects,
implement ongoing work, manage risk, or monitor progress. A number of definitions of the term "strategic planning" are provided in this section. The purpose of the tax administration's strategic plan is to: 1) document and communicate the vision, mission, and values; 2) align the goals, objectives, and action plans with the mission; 3) allow the tax administration to set priorities given the limited financial and human resources available; and 4) allow IT systems to be aligned so that reporting provides meaningful information to evaluate and measure performance.

**Political Commitment and Stakeholder Engagement**

Successful implementation of changes in the tax structure, administration, and systems and procedures requires committed and capable management teams that are backed by the government's strong political will to introduce change.

**Implementing Change**

Significant changes should be implemented gradually through a series of practical and manageable steps. Any strategic plan must be realistic, have employee ownership through a consultative process, and be comprehensive, with a coordinated approach that includes the entire organization.

**Responsibility, Purpose, and Process**

The strategic plan is the responsibility of senior management, but involves a broad base of employees from across the organization to ensure employee commitment. Strategic plans are often far reaching and cannot be accomplished in a short time span. They have a multi-year focus. Strategic plans also identify measurable outputs for performance management. Finally, the plan is written as a means of communicating to employees, taxpayers, and other stakeholders.

**Preparing to Plan**

In its most basic form, the process begins with key management of the tax administration meeting to discuss, in a structured manner, what they view as the most important aspects of the organization and their views on attainable goals for the organization. They develop a rough framework for the strategic planning effort that is about to be undertaken.

A core working group of participants is selected and given full access to all resource documents (examples of documents that provide information are listed in this section). The development of the strategic plan becomes a "bottom-up" process that is within the framework established during the initial senior management meeting. The group prepares an initial draft of the strategic plan and briefs the head of the tax administration.

A good strategic plan for the tax administration should address a number of interlinked components: 1) the adequacy of the tax laws and policies; 2) organization/taxpayer segmentation; 3) staffing; 4) facilities; 5) tax operations/functions; 6) human and institutional capacity; 7) integrity; 8) technology; and 9) communications. The failure to do so may result in failure of the overall strategy. A number of previous reports, examples of which are provided in this section, contribute information.
**Setting the Planning in Motion**

A meeting of all participants in the strategic planning process provides the opportunity for the head of the tax administration to outline some of the recent internal and external developments that affect the tax administration, as well as what other tax administrations may be doing. The meeting also provides a platform for the head of the tax administration to outline ideas and possible directions for the future of the tax administration. Examples of discussion topics are presented in this section.

Following these introductory remarks, a workshop session for all participants introduces them to strategic thinking and planning. Investing in a workshop that devotes sufficient detail to the strategic plan produces a superior plan. General guidelines to a successful workshop are provided in this section.

**Mission**

The next step in the process is to develop or clarify the tax administration’s mission, values, and ideal vision. The mission is a concise statement of what the organization wants to achieve.

**Environmental Analysis**

Example mission statements are presented in this section. As part of the development of the mission statement, the strategic planning participants should define the tax administration’s stakeholders – the persons, groups, or organizations that have an interest in the administration, can have an effect on it, or are affected by what the administration does. When doing so, it is also necessary to identify how each stakeholder would judge the performance of the administration and the criteria that each would use to identify success.

The identification of stakeholders and their perceptions of the tax administration is only part of the environmental analysis. The analysis also involves using all available internal and external information sources to understand the environment in which the tax administration operates, and to identify the risks and opportunities expected to impact on the organization over the duration of the strategic plan.

**Vision**

The vision must be technically viable, legal, politically acceptable, acceptable to stakeholders, and within the mission of the tax administration. It is a means for motivating staff and clearly indicating direction to external stakeholders. Most vision statements emphasize the excellence of the organization, the achievement of targets, and the establishment of an effective and efficient administration. The vision articulates what the tax administration will look like once it has successfully implemented its strategy. Example vision statements are presented in this section.

After compiling a list of potential visions, it is necessary to critically examine each of the alternatives. It is helpful to develop a chart that lists the barriers to achievement and the major steps required to overcome these barriers to achieve the vision.
Values

The tax administration’s values statement sets out the principles or beliefs that guide the tax administration’s members as they pursue the organization’s purpose. It is also used to specify the behaviors and attitudes that the tax staff are expected to display and how the tax administration wishes to be seen externally. Some common values are integrity, fairness, honesty, professionalism, respect, efficiency, responsiveness, and cooperation. Example value statements are presented in this section.

Developing Strategic Objectives – a Checklist

This section lists example strategic objectives and presents a checklist that will help the tax administration in defining appropriate strategic objectives. The checklist is as follows:

- An objective must be written for a specific result, a single topic, or an area of performance;
- An objective must contain a measurable component (e.g., how much, how many, etc.);
- An objective must represent a significant change;
- An objective must define the results to be achieved;
- An objective should have a target time for completion;
- The objectives are encompassing of the mission and values, aligned, and supportive of each other; and
- Objectives should be monitored for progress and continued relevance, and results should be evaluated.

Service and Performance Standards

Performance standards should be set for each major task and achievement against these standards should be regularly monitored and evaluated, with corrective actions taken, as needed. General guidelines on measures include: 1) measures should not be too simplistic; 2) measures should cover both qualitative and quantitative aspects of the task; and 3) measures should include quantities or volume of output (how many), quality of the output (how well, accuracy levels), timeliness (how long), and monetary values.

Action Plans

After the aforementioned components of the strategic plan are developed, the process shifts to narrower planning that is concerned with shorter-term deliverables. The tax administration should develop action plans that identify: 1) the tasks to be performed; 2) the strategic objective to which they relate; 3) the person or unit responsible for their delivery; 4) measurable standards by which performance can be assessed; 5) measures of the quantity, quality, and timeliness of delivery; and 6) the costs of implementing the action plan. Initial plans may be high-level plans with minimal narrative. These high-level plans seek approval in principle before embarking on the time-consuming process of producing a detailed work plan, detailed budgets, etc.
Ensuring Success

The following are proposed conditions for ensuring success in the planning process:

- Strategic planning should address all key areas of the tax administration. In the case of a major tax reform effort, a holistic approach is mandatory.
- The vision must have the buy-in of not just the current management, but also of those expected to be managers during the lifetime of the strategic plan, as these future managers must provide the continuity, ownership, and determination to see the plan through.
- Significant resources must be expended not only in creating the plan, but also in managing its implementation.
- Any new proposals for initiatives must be justified within the context of the strategic plan.
- Implementation of a program or project requires the resources of the tax administration. Staff must be informed, fears and resistance dealt with, and staff motivated to work toward the objectives of the strategic plan.
- Although many changes may be identified as necessary, the pace of change is often dictated by staff motivation, management capacity, and depth of management.

Conditions for the implementation of change include:

- Sustained political commitment and support.
- Competent, committed, and dynamic leadership.
- A clear vision for the organization's future state, with well-articulated strategies.
- Change initiatives set out in manageable "chunks," rather than a "big bang" approach.
- Legislation that supports the reform proposals or is modified to do so.
- Initiatives to develop executives, middle management, and other institutional capacity.
- Adequate resources, funding, and cash flow arrangements.
- A high level of accountability, founded on sound corporate governance and management structures and processes.
- Good project management and budgeting processes, with appropriate external oversight and supervision.
- Staff and external stakeholder involvement, and strong communications with them.
- Cohesion within the administration, between those developing and implementing reform and those performing current operations.
- Appropriate use of technical assistance.
- Steps to ensure ownership of the reform process throughout the organization.

15.2. Common Trends

Increasing Emphasis on Management

Empirical evidence of the increased emphasis on management is the growing number of tax administrations that now produce strategic plans and annual work plans, actively measuring and
monitoring performance, surveying taxpayers to gauge their views and perceptions of service delivery and overall administration.

**Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis**

The SWOT analysis is a tool that can be used during strategic planning and at different points of the planning process. During the SWOT, the tax administration looks outward to identify both opportunities and threats, and inward at the tax administration and identify its strengths and weaknesses. The identification of strengths and opportunities can be used in the plan to overcome the identified weaknesses and threats and will assist in building a realistic strategy. Example SWOT analysis questions are presented in this section.

15.3. Tax Administration Maturity

Tax administrations that lack strategic planning are "focused on day-to-day work." As they mature, they develop plans that are, first, qualitative, with clear missions, visions, and plans, but lacking quantitative measures of performance. Tax administrations with good strategic planning processes are labeled as "strategic," while leading practice tax administration "inspire" staff as contributing to something important beyond the organization's self-interest.

15.4. Latin America and the Caribbean

Strategic planning is well established in LAC, although plans are not always in the public domain. However, it is not clear how often strategic plans are followed by action plans and implementation. There are also issues with performance monitoring. Revenue targets seem to be primary goals of performance measures, and other indicators are nonspecific, too detailed, difficult to quantify, or not relevant.

15.5. Key Benchmarks and Guidelines

Two of the most basic prerequisites for proper strategic planning in tax administrations are: autonomy and organization. Modern tax administrations have political autonomy to manage their day-to-day decisions and operational activities. Modern tax administrations are also organized to meet the most significant commercial risks and priorities, with units requiring specific skills and offering economies of scale. A number of other questions to assist tax administration officials in identifying whether the strategic process at their organization is appropriate are also provided in this section. In addition, performance targets typically included in the strategic plan are discussed in an appendix to this chapter.

**Chapter 16. Internal Audit**

"Internal audit" is the process of conducting periodic reviews to ensure that selected regulations, operations, administrative procedures and programs, and internal controls of the tax administration conform to specified standards and are being implemented efficiently and effectively. Internal audits include the review and appraisal of policies, practices, systems, and procedures, as well as the analysis and verification of accounts, financial transactions, internal controls, and reports.
16.1. Leading Practice

Internal audit promotes public confidence in the tax administration by providing the public and management with independent, timely, and professional periodic reviews that: 1) promote economic, efficient, and effective administration of the country’s tax laws; 2) detect and deter waste, fraud, corruption, and abuse in tax administration programs and operations; and 3) inform the head of the tax administration of significant risks or deviations from defined laws, regulations, policies, and objectives throughout the organization.

In carrying out their duties, internal audit staff must have the full cooperation of officials at all levels as well as full, free, and unrestricted access to review the activities, reports, records, and property. To eliminate any doubt about the authority of the internal audit function, language to that effect – preferably statutory, through regulations, or by formal delegation - must be made a part of the official record.

The internal audit function is often combined with the integrity investigations function, but these two are somewhat different. Internal audit focuses on quality and efficiency, whereas integrity investigations focus on allegations of corruption and misconduct by tax officials.

Internal audit activities should conform to recognized standards and guidelines. The Institute of Internal Auditors is the recognized international standard setting body for internal audit.

*Differences between Management and Internal Audit Oversight*

The establishment of financial standards and internal controls is normally the responsibility of management and not of internal auditors. Internal audit, on the other hand, provides higher management with an independent review and assessment of operations, programs, systems development, and financial activities. Examples of questions that may be posed by internal auditors are presented in this section.

*Qualification and Training for Internal Auditors*

All internal auditors recruited by tax administrations should have a university degree in accounting. After recruitment, internal auditors should have classroom and on-the-job training to prepare them. Among the topics that should be covered in classroom training courses for internal auditors are: 1) revenue administration, laws, and regulations and national finance, administrative, and audit acts; 2) accounting and accounting systems; 3) internal audit standards and audit techniques; 4) computer fraud; 5) computer tools and audit techniques; and 6) investigative and interviewing techniques and investigative report writing.

*Typical Organizational Structure of the Component*

An example organizational structure and suggested staffing levels are presented in this section.
Responsibilities of the Assistant Director of Internal Audit

The Assistant Director serves as the principal advisor on internal audit matters to the Director of Internal Audit and Integrity Investigations and to the head of the tax administration and is responsible for the development and execution of the internal audit annual program. Other responsibilities are listed in this section.

Responsibilities of the Planning and Management Staff

Planning and management staff control, coordinate, and develop the internal audit annual work plan, prepare recurring and periodic reports on the department’s programs and accomplishments, are responsible for the quality control and review of all internal audit reports, and have other responsibilities as detailed in this section.

Responsibilities of Internal Audit Managers

Internal audit managers conduct internal audits of activities and programs in all of the tax administration departments and provide effective and cost-efficient controls to protect against theft and serious error. Other responsibilities of internal audit managers are described in this section.

Main Responsibilities of Internal Auditors

The responsibilities of internal auditors are detailed in this section. These include the development and implementation of audit programs, ensuring the effectiveness and adequacy of control systems, procedures, and records, evaluating the effectiveness of certain policies and procedures in safeguarding the tax administration’s assets against defalcation, loss, or waste, and, where necessary, recommending changes.

Operating Procedures

The planning and execution of the internal audit annual work plan each year should be in conformance with the following: 1) priorities are established to ensure that assessable areas are subject to audit based on risk factors, with each area reviewed on a scheduled basis; 2) audit procedures and guidelines are established to ensure that audit planning and execution are properly accomplished; 3) benchmarks are established to assess the efficiency and effectiveness of audits; 4) audit standards are established, based on IIA/INTOSAI or similar standards; and 5) reporting procedures are established and monitored to ensure that management properly addresses findings and recommendations.

Internal audit findings are usually presented in written reports that contain factual presentations of the auditors’ findings. Non-integrity issues found during routine internal audit activities should first be reported in draft to the top functional management official directly charged with appropriate corrective action, such as the head of the audit or collections division. After the completion of an audit (except on internal audits where integrity is an issue), the internal auditors should present draft reports and preliminary findings to affected officials, so that they have an opportunity to agree with the facts presented or provide information to correct any errors.
16.2. Common Trends

Use of Information Technology

In recent years, internal audit has embraced the trend for more and better computerization and IT, including many corresponding modern tools, such as a centralized repository of all audit plans, work papers, audit work programs, findings, reports, and follow-up, comprehensive audit plan management throughout the life cycle of each audit, and other tools.

From Oversight to Strategy

The following are related trends:

- Traditionally, financial auditing, controls, and regulatory compliance were the primary focus of internal audit activities. In recent years, the role of internal audit has expanded to include the assessment of operations, programs, system development, and integrity investigations.
- There is greater collaboration between internal audit and operations officials at all levels of the tax administration, encouraging a free flow of information in a way that facilitates accountability. Internal audit, however, must continue to maintain its independence by having a direct reporting line to the head of the tax administration.
- Similarly to using computerized risk-based selection for audit, internal audit has begun to identify and prioritize assessable areas based on the greatest risks to the tax administration in the internal audit annual work plans.
- Computer assisted audit techniques are becoming much more necessary to automate and streamline internal audit processes and to alleviate the burden on internal audit staff.
- Changes in the audit landscape require internal auditors to have a broad range of skills, so the profession is very challenging. It is more and more difficult to find new and retain experienced staff and to maintain continuity in internal audit operations of tax administrations.

16.3. Tax Administration Maturity

The internal audit function of the tax administration is "not present" at the lowest level of the suggested maturity model (or outside of the tax administration). It becomes "aware" when a small unit is established. This unit, however, lacks experience, legal statutory language, and, perhaps, staffing capacity. As the unit "takes shape," it gains experience, policies and procedures, good planning, and IT infrastructure, as well as a better relationship with the rest of the tax administration. At the highest level of maturity, internal audit is a "strategic player," with excellent relationships with other departments.

16.4. Latin America and the Caribbean

With very heavy reliance on external audits for many years, formal internal audit units as organizational entities within tax administrations are relatively new in most LAC countries. Although most LAC tax administrations now have internal control organization entities, they have applied very few sanctions or
disciplinary actions for infractions, indicating that internal controls are more a formality than truly effective.

16.5. Key Benchmarks and Guidelines

The most important benchmark for internal audit is that its work adheres to internationally accepted or leading practice standards, such as those of the Institute of Internal Auditors. Key indicators of performance for the internal audit function each year include:

- 90 percent of routine audits are initiated within 15 days of assignment, and the other 10 percent are initiated within 30 days.
- 60 percent of total available time of internal auditors is spent on direct operations, while 40 percent is spent on training, administrative matters, and personal time.
- In 90 percent of cases, the average number of calendar days to complete the audit is within ±5 percent of the scheduled time.
- In 95 percent of cases, draft reports of findings are issued for management response within 15 days of completion of the audit, and within 25 days for the other 5 percent.
- In 90 percent of cases, reports are completed and submitted to the head of the tax administration within 30 days of receipt of management’s feedback, and within 45 days for the other 10 percent.
- In 95 percent of cases, the results of quality reviews of audit work papers and reports by internal audit management are positive.

Chapter 17. Integrity

Integrity is honesty, moral correctness, respectability, fairness, equal treatment, and ethical behavior across a range of operational and management issues. Integrity is not about preventing corruption in a narrow sense, but rather about securing and maintaining public confidence. For civil servants, in particular, integrity is about putting the public good above their own personal interests. Since a few corrupt officials can seriously harm the reputation of the organization as a whole, all failings should be addressed. Tax administrations need to take proactive steps to ensure that they maintain a reputation of integrity.

17.1. Leading Practice

Integrity strategies comprise three overarching approaches: 1) fundamental approach; 2) administrative and legal approach; and 3) transparency and standards approach.

**Fundamental Approach**

The objective of this approach is to remove the conditions that give rise to corruption.
• Adhering to the principles of tax policy (simplicity, adequacy, equity, etc.) goes a long way towards instituting a perception of fairness in the tax system as a whole, and in the government and the tax administration in particular.
• Functional organizational structures are a deterrent against corrupt practices. Separation of the functional staff is accompanied by a vertical organization with strong headquarters which oversees managers of specific geographical areas.
• Administrative transparency with standardized procedures and forms limit one-on-one contact between tax officials and taxpayers and ensure that all taxpayers are treated in a consistent manner.
• As more processes are automated, discretion is significantly reduced and processes become impersonal.
• Tax administration staff should receive appropriate training for the duties they are expected to perform within the tax administration. Training should also focus on instilling an attitude whereby staff put the reputation of the tax administration ahead of personal welfare or opportunities for financial gain.

Administrative and Legal Approach

The objective of this approach is to limit potential for corruption and to increase the probability of detecting corrupt practices.

The cornerstone of any anti-corruption strategy for a tax administration is the adoption of a Code of Conduct / Ethics. First, the Code should identify those acts that would require the automatic imposition of the most severe sanctions. Second, the Code should stipulate that the immediate supervisor of the offending officer should also be subject to an appropriately severe penalty if the supervisor knew about the violation but failed to report it, or if the supervisor should have known about the violation if he/she had been exercising proper supervision. Third, all officers should be required to sign an acknowledgment that they have reviewed the Code and have understood its requirements. The Code should include appropriate sanctions developed for violations, which may range from a warning letter to temporary suspension of an employee, dismissal, and referral for criminal action.

Supplementary policies should cover four main areas: 1) behavioral norms (handling taxpayer complaints, disclosure of official identity, confidentiality of information, etc.); 2) personal conduct (relative to accepting gifts, personal fund raising, etc.); 3) definitions for misconduct and conflict of interest, recommending attorneys and accountants, and other; and 4) enforcement for breaches of the Code, as well as grievance procedures. In addition, in some countries senior management (or senior management and all technical staff) are required to submit an annual declaration on their income and assets. Last but not least, ignoring personnel matters (e.g., recruitment, professional advancement) may handicap the tax administration.
Transparency and Standards Approach

Ultimately, the success of any tax system depends on the population’s perception that the system is being administered in a fair and equitable manner.

- The specific rights of taxpayers must be made a part of the tax law and publicized often.
- All decisions of the administration must be based on objective rules, regulations, and procedures that must be published, disseminated broadly, and readily available to the public.
- In any system, there must be checks and balances. All decisions and/or actions of the administration must be subject to complaint (objection or appeal), as appropriate. Complaints from taxpayers must be dealt with impartially and with strict adherence to law and regulation.
- Once the tax administration has sufficient systems and safeguards in place internally, it makes sense to communicate this fact to the public and get its buy-in for any anti-corruption strategy. Conversely, taxpayers should be warned of the consequences for offering a bribe or seeking to corrupt a tax official. Consideration should also be given to the idea of establishing a telephone number where taxpayers and tax officials can report violations of the Code of Conduct.

17.2. Common Trends

Many countries have now enacted or adopted something along the lines of a freedom of information act, forcing many tax administrations to promote greater transparency and accountability in their operations. Even more specific to the tax administration is the adoption of a Citizens or Taxpayers Charter, which is meant to clearly articulate not only the powers and responsibilities of the tax administration, but also the rights and obligations of the taxpayer. Finally, an Ombudsman is a trusted intermediary between the state and its citizens. An Ombudsman office can be set up to handle complaints about or to the state, but must be established in a way that the taxpayer feels comfortable that individuals assigned to this position are independent of the state and the tax administration.

17.3. Tax Administration Maturity

At the lowest level of maturity, the tax administration is described as "opaque," lacking legal / regulatory institutions and civil service rules. There are no investigations of corrupt practice. A "hot-and-cold" tax administration establishes good relationships with some public and private sector groups (e.g., Customs, the accounting profession), but these initiatives lack coherence and stability. Taxpayers and the public remain wary of complaining. As the tax administration matures, it becomes "comfortable," with positive development in relationships, clear rules and regulations, and a formal Code of Conduct.

17.4. Latin America and the Caribbean

Much of the tax administration reforms in LAC over the past decade have emphasized the need to raise revenues. Integrity is a relatively new concern and, with respect to the integrity enabling principles above, LAC countries vary. For example, the administrative burden of paying taxes is very small in some, while very large in others. In some cases, simplification has been accomplished through presumptive regimes at the expense of base erosion. While some LAC countries have adopted codes of conduct
(which are not always public), many others have not. Although there has been much focus on IT automation, CIAT notes that in many countries taxpayers still have limited access to technology. A few countries are actively promoting integrity and, through CIAT, cooperating on the development of an internal audit manual and a model tax code.

17.5. Key Benchmarks and Guidelines

The integrity of the tax administration will mirror the legislative, administrative, and social change of the country. In addition, the most important factor in bringing about the necessary improvements in all aspects of integrity is the quality of leadership provided by all managers.

The following points summarize some key areas which should be visible and where further inquiry may be warranted to test performance of the administration and to pinpoint areas for improvement:

- Effective leadership and senior management commitment (including risk management);
- Good communications between staff at all levels;
- Clear contract/terms and conditions of employment;
- An accessible and clear Code of Conduct and set of organizational values, with sufficiently detailed supporting guidance (including confidentiality and the integrity of information; dealing with gifts, gratuities, and hospitality; handling conflicts of interest; political activities; and management of the risk of internal fraud);
- Ensuring the integrity of new recruits and appointees through background checks and/or other methods, where appropriate;
- Ensuring new recruits to the organization are given a thorough induction on integrity requirements;
- Technical and soft skills training and professional development;
- Performance management, including the regular assessment of performance and behavior;
- Monitoring and maintaining integrity;
- Procedures for reporting or raising concerns, including internal grievances and "whistleblowing";
- Discipline and criminal referral policies and procedures; and
- Governance and effective internal investigation arrangements.