



**THIRD REGIONAL TRAINING WORKSHOP ON
TAXATION
Brasilia, Brazil, 3 – 5 December 2002**



SUMMARY OF PROCEEDINGS

The Third Regional Workshop on Taxation was held in association with Inter-American Center of Tax Administrations (CIAT), the Government of Brazil, and UN/DESA in Brasilia from 3 to 5 December 2002.

The Workshop was opened by Dr. Ricardo Pinheiro, IR Secretary General, Secretary of Federal Revenue (SRF), Mrs. Teresa Ter-Minassian, Director, Fiscal Affairs Department, IMF, Mr. Claudino Pita, Director of Strategic Planning and Studies, CIAT, and Mr. Suresh Shende, Interregional Advisor in Resource Mobilization, UN/DESA.

Theme No. 1: Mobilization of financial resources for economic development, tax reforms in developing countries was presented by Mrs. Teresa Ter-Minassian, IMF and Mr. Juan Carlos Lerda, International Consultant. Mrs. Ter-Minassian presented four aspects of tax policies in developing countries and economies in transition; tax policy objectives, constraints facing tax policy makers, current trends in taxation in Latin America, and remaining challenges. Tax policy in developing countries and economies in transition is important in ensuring sustainable fiscal policy, promoting revenue mobilization to finance efficient expenditure in social sectors, and removing distortive features of the tax system to promote economic efficiency and increase growth potential. However, implementing tax policy in developing countries have some constraint from the fact of high degree of informality, high share of agriculture and service sectors in the economy, and fragmentation of retail sector. Moreover, increasing openness in foreign trade has been leading to loss of revenues from import duties and export taxes. Growing financial integration is also making it more difficult to tax on capital incomes. In relation to tax competition for foreign direct investment (FDI), a regional cooperation is necessary to prevent harmful tax competition. The relatively high concentration of incomes in developing countries and economies in transition would require taxing relatively more politically powerful groups. However, such groups resist increased tax burdens, and frequently manage to obtain tax exemptions or privileges, as well as budgetary subsidies. The trend of fiscal decentralization is leading to upward pressure on expenditure and overall tax burden, while local tax bases are underutilized. From the reason of political expediency, local governments tend to favor tax sharing instead of introducing local taxes. Local taxes such as property taxes have difficulties in valuing properties. Especially, at the regional and local levels there are serious deficiencies in tax administration. Reforms of tax administration take time and complex and non-transparent tax legislation make administration and enforcement more difficult.

In relation to the trend of taxation in Latin America, firstly, top income tax rates for both individuals and corporates have been reduced faster than OECD countries during the past 17 years. As a result, the overall profile of marginal tax rates has tended to

flatten out. Secondly, Latin American countries have also reduced their reliance on trade taxes, substituting the loss of revenue with increased taxes on domestic consumption such as value added tax (VAT) and excise taxes on tobacco, alcohol, and motor vehicles, petroleum products. Thirdly, despite cuts in tax rates, most Latin American countries have been able to increase their tax ratios in recent years. Fourthly, many Latin American countries have adopted base-broadening measures, such as taxation on worldwide income, adoption of safeguards against tax arbitrage, and reduction of tax exemptions and incentives.

Further reforms in taxation are required in many countries in the region. Firstly, it is necessary to further reduce tax incentives. Secondly, regional tax harmonization would facilitate moderate taxation of financial income and reduce tax competition for FDI. Thirdly, improving local taxation will make municipalities more self-reliant by collecting their own taxes. Fourthly, to strengthen tax administrations it is necessary to simplify tax legislation and regulation and improve audit programs.

Mr. Juan Carlos Lerda, International Consultant presented the importance of tax reforms as well as limitations in mobilizing resources in Latin America. Fiscal imbalance has grown in Central and Latin America in the 1990s. For the expenditure side, due to budget rigidity the growth rate of public expenditure was higher than GDP growth rate. For the revenue side, it did not grow much due to tax break, which was used for political reasons. Tax reforms in Latin-American countries have not been focused on mobilizing resources but; in the need to pay the interest on external debt. In this sense, Monterrey Consensus does not apply in Latin America. Mr. Lerda mentioned that more important than tax reforms is the control and improvement of three aspects: (i) organizational efficiency and effectiveness at all levels, (ii) well-oriented fiscal and monetary policy, and (iii) institutional functioning of outlined objectives.

Mr. Parthasarathi Shome referred to the importance of tax revenue from informal economy, tax collection by subnational governments, and increasing tax revenue on income. He also mentioned that tax incentives would work both in positive and negative ways from the experiences in Germany, Italy, and Ireland. He also pointed out the discretionary portion of the budget is relatively limited in many countries, which limits the flexible use of resource apportioned to the tax agency. In order to enhance administrative efficiency it is necessary to increase budgetary autonomy. Several other means of taxation was also discussed such as minimum alternative tax, financial transaction tax, tax on non-renewable resources, and sharing of VAT between central and local governments.

Mr. Claudino Pita mentioned two important aspects to be taken into consideration: a human resource policy that allows tax officers to work under an effectiveness criteria and improvement of the tax administration's information technology capacity. In relation to tax breaks he mentioned that it does not have good effect on tax stability.

Theme No. 2: The role and strategies of the tax administration in developing countries, Methods to promote voluntary tax compliance, the presentation was presented

by Mr. Marcel Clément, Director General, Audit Directorate, Compliance Program Branch, Canada Custom and Revenue Agency. Mr. Clément presented CCRA's compliance strategy as well as specific initiatives that have been implemented to promote voluntary compliance. Ensuring compliance is an ongoing challenge, which requires public education, client service, and credible enforcement. For public education, a user friendly guides and brochures as well as presentations at various meetings and conferences. To enhance client service, CCRA works in close partnership with industry and labour associations to reduce administrative load and streamline processes. Credible enforcement is an integral part of any compliance strategy as it acts not only to deter tax evasion but also serves to remind taxpayers about fairness of the tax system.

The underground economy has been a significant element in the Canadian economy for many years. CCRA has been working to encourage voluntary compliance through community visits and public education, identify non-filers and non-registers through the matching of databases, publicize tax evasion convictions, and conduct compliance research.

The comments from Prof. John Evans Atta Mills included the importance of taxpayer education, tax payer information (website, publication, media) and tax payer assistance to enhance voluntary compliance. The issue related to tax audit and well-motivated staff were also pointed out.

Mr. Pita suggested that he would prefer the term "spontaneous compliance" instead of "voluntary compliance". He mentioned the need for a strategy based on control, compliance facilitation, information exchange among different levels of government, taxpayer service, taxpayers participation in tax reforms, support to tax officers (training) as well as increased use of information technology. Finally, tax officers need to be aware of the importance of their assignment—not simply be tax collectors.

Theme No. 3: Informal economy, the special tax regime for small and micro business: design and implementation was presented by Mr. Parthasarathi Shome, Director, IMF Singapore Regional Training Institute. Mr. Shome's presentation pointed out the importance of paying attention on small taxpayers. Many countries have moved toward establishing large taxpayers unit from the point of efficiency and securing tax revenue. Focusing highly significant amount of resources on large taxpayers may represent an efficient strategy for short-term revenue mobilization but in medium term, it comprises an insufficient approach. In both Asia and Latin America, small taxpayers do possess significant revenue contribution potential, which implies that a high degree of distortion in the allocation of resources may be caused by separating small from large taxpayers. The idea of single tax for administrative simplicity increases inequity and encourages the unwillingness of small taxpayers to graduate from the single tax. A single tax does not reduce tax evasion since it typically requires small taxpayers to pay less than their theoretical tax potential. It also exacerbates the problem of a secondary market for VAT invoices and thus could increase tax evasions. To tax small taxpayers a minimum alternative tax based on gross assets, book profits, turnover could be ideal. For the VAT, there has to be a low threshold below which small taxpayers would function and they

should be encouraged to opt into the general VAT system. For the social security tax, a small tax payers should be given a reasonable period for utilization of the money they withhold before transferring it to Government, as a means to compensate them indirectly for the free withholding and transfer service they perform for government. A single tax covering all taxes—income tax, VAT, social security tax—should not be enacted. Tax administrator's needs to improve its techniques of revenue calculations and reporting of trends. Tax administration should fully reflect the original intentions of tax policy as expressed in the tax statute, which should be achievable if tax structure is simplified. To maintain efficiency and equity, the tax law should be applied without issuing executive orders to create simplistic administrative constructs.

Mrs. Ter-Minassian fully agreed with many points expressed in Mr. Shome's paper. Mr. Lerda mentioned that efficiency is only one of the criteria for tax administration and there are some other issues to be considered such as income distribution and equity.

Ms. Maria Raquel Ayala Doval, CIAT made her comments from the tax administration's viewpoint. She commented that the problem is not only in the tax administrations structures but also in the recognition of the tax administration's incapability to control their small taxpayers. Tax administrations have introduced the system under the argument of simplification the tax administration procedures to improve taxpayers service and/or incorporate underground economy. The introduction of a simplified system, in Brazil, for example, has reduced paperwork for both: taxpayers and tax administrations but did not result in decrease of tax revenues. In this sense, the main objective of "SIMPLES" has been achieved successfully. In Argentina simplification of administration proposal was based on both reducing administrative burden and incorporating underground economy. Recently, Argentina has adjusted its "monotributo" to correct some distortions of the system. It has produced positive results. In Peru, simplification did not result in reducing tax evasion due to the fact that taxpayers are not willing to register for lack of confidence in the tax administration's purposes.

Mr. Pedro Luiz, General Coordinator of Technology, SRF presented on Theme 4: Information Technology in Support of the Tax Administration Functions and Taxpayer Assistance. The presentation showed, in the case of Brazil, how information technology allows for making significant changes in the administrative process in general, as well as in the control of taxpayer obligations and in the better provision of services by the tax administrators. Particularly, given the complexities existing in a large country as Brazil with several taxes and a federal regime where an effective coordination and communication is required between the federal government and the states. The information technology process has been addressed to increase and improve tax administration service through introduction of internet and phone services for taxpayers and simplification of tax administration procedures. This strategy has been based on two aspects: tax administration - taxpayer vision and taxpayer - tax administration vision. The integration of the administrative process by means of process and information flows constitutes the basis for carrying out effective control actions and for offering adequate services to respond to taxpayers needs. Results achieved must be permanently measured

to guarantee compliance with the strategies and the institutional mission, be means of management control systems, in a continuous which permanently provides feedback to the administrative process.

Mr. Antonio Seco, Information System Consultant, CIAT made a comment that tax payer service for non-IT users is also important. It is necessary to create a system to enable non-IT users to file simplified tax return at retail store or kiosk.

Prof. John Evans Atta Mills made presentation on Theme 5: Improving resources and organizational structures of the tax administrations. Prof. Mills mentioned that the institutional framework within the operation of revenue administration directly impacts on the effectiveness and efficiency of the tax administration. While the general trend is to have separate administrations for internal taxes and customs duties, in a few countries they are jointly administered. Another feature is that most of these administrations are part of the civil service machinery of the countries except in some countries where the collection function is performed by a unit separate from the tax administration.

A new trend is observed for the revenue administrations in many developing countries in adoption of an institutional framework within which the revenue administrations have been made semi-autonomous and excised from the civil service. One of the pioneers in this restructuring exercise in Africa was Ghana, followed by a number of countries in such as Ghana, Uganda, Tanzania, Zambia, and Kenya. In Ghana, 3 % of the tax collection is allocated to the budget of tax agency. The reform in Ghana increased tax revenue as percentage of GDP from 5 percent in 1986 to 12 percent in 1993.

There are certain tax areas that ought to be given special attention in any scheme of tax administration reform and tax restructuring such as the informal sector, non-tax revenue, the agriculture sector, and para-tax professions. The number of operators in the informal sector make the cost of effectively targeting the informal sector not seems very economic, yet the paradox is that it is those very numbers that make the sector impossible to ignore as a tax target. Another potential area of revenue generation is non-tax revenues, which are referred to as fees and licenses, which have remained fixed and unchanged for long periods. Agriculture sector in developing countries remain largely untaxed despite of its importance in the economy. The para-tax professions is not within the framework of tax reform but it is necessary to enhance the skills of professional accountants, auditors, and other para-tax professional within the national economy as an integral part component of improving organizational structures of the tax administration.

Proper management such as recruitment, training, and motivation is another factor that could enhance the efficiency and effectiveness of tax administration. In many developing countries, there is a keen competition between revenue collection agencies and the private sector for the services of the limited number of professional personnel such as accountants. In order to attract such personnel and also to retain them, there is a need on the part of the revenue administration to provide adequate motivation for their staff. Adequate motivation of staff also eliminates or reduces the incidence of dishonesty or corruption. Motivating factors for staff include adequate remuneration, payment of

bonus upon attainment of collection targets, welfare schemes, retirement benefits, career development opportunities, general job satisfaction, job security and public recognition of revenue officials' contribution to the improvement in the national economy.

Mr. Matthijs Alink, Deputy Director, International Affairs, Director General of the Tax and Custom Administration, The Netherlands made a comment on Mr. Mills presentation. He emphasized the importance of budgetary autonomy and pointed out that budget cycle for tax administration needs to be at least two years instead of an annual basis since tax administration plans generally cover a number of years. In relation to the motivation, a link between fulfillment of objectives and an incentive scheme that affects the salary of civil servants is an effective way of involving them in achieving the goals and also stimulates personal initiatives. In the Netherlands a program called "I love tax" was developed to make taxpayers and tax employees conscious of the value of contribution of the tax employee to society assuring that the government can fulfill a proper execution its task in education, infrastructure, and social security.

Mr. Fernando Rezende, Getulio Vargas Foundation discussed the Brazilian case of reform which began in 1988. He warned that excessive bias for simplified collection might loose the equity principle of taxation. In relation to tax registration, it was explained that without tax registration it is possible to acquire information from various different sources such as social security. Referring to the movement of regional integration (i.e., free trade area, economic union), will be a threat to tax authority and exchange of information needs to be strengthened.

Mr. Pita also mentioned about the danger of excessive bias for simplified collection from the point of equity. He made a comment that autonomous institutional framework is a general trend in the region and it has been introduced at different level of administration in almost half of CIAT member states (Peru, Guatemala, Mexico, etc.). Based on the success of Canadian reform, the integration of tax administration for different taxes was suggested. Moreover, convergence of different taxes would also result in efficiency and effectiveness. Finally, he pointed out the not only compliance to the tax law but also real time collection is necessary.

In relation to budgetary autonomy, several participants asked Mr. Mills that how much percentage of tax collection should be allocated to the budget of tax agency. Mr. Mills responded that it differs from country to country. He also mentioned that in giving budgetary autonomy to tax agency while other ministries remain under the traditional budget mechanism, there are some opposition for treating. Regarding organizational structure Mr. Mills explained that there is a trend to separate tax administration into income tax and custom while, some countries combine tax administration for these two taxes. He pointed out that there are both positive and negative aspects of separating tax administration. Mr. Shome mentioned the importance of job security and pointed out that under Peru's new system of human resource management there is no job security.

The Workshop was closed by presentation of certificates to the participants and closing remarks by Mr. Everardo Maciel, General Secretary of Federal Revenue,

Government of Brazil, Mr. Claudino Pita, Director of Strategic Planning and Studies, CIAT, and Mr. Suresh Shende, Interregional Advisor on Resource Mobilization, UNDESA.