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REPORT OF THE CONFERENCE
ON TAX ADMINISTRATION

(Buenos Aires, Argentina, 11 to 19 October 1961)

The original version of this report was issued as a restricted document (OAS/ECLA/IDB/10) on 19 October 1961 at the final meeting of the Conference on Tax Administration, distribution being limited to the participants. The present version includes minor changes in editing and presentation, corrigenda to the summary records received from some of the participants, and the summary records of the last two working meetings which were distributed after the Conference had ended. The final version will be issued in printed form, as stated in Part I, paragraph 4.

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INTRODUCTION

1. The present report outlines the proceedings of the Conference on Tax Administration held at Buenos Aires, Argentina, from 11 to 19 October 1961, under the auspices of the OAS/ECLA/IDB Tax Program in co-operation with the Harvard University Law School and its International Program in Taxation.

2. It would seem appropriate to begin the report with a brief reminder of the various circumstances which led to the establishment of the Tax Program and the convening of the Conference. They may be summed up as follows:

- (a) Since intelligently-designed tax systems, applied with efficacy, may constitute one of the most important instruments for the financing of Latin America's economic development, the Organization of American States (OAS), the Economic Commission for Latin America (ECLA) and the Inter-American Development Bank (IDB), with the co-operation of Harvard University, decided, on the basis of the recommendations incorporated in the Act of Bogotá, to launch a long-term joint programme with a view to promoting the reform of tax systems and bringing about an improvement in tax administration.
- (b) The organizations sponsoring the programme planned its activities around two meetings of experts. One of these was to devote its attention to the specific study of the problems of tax administration, and the other to the analysis of the principles of tax policy which should be borne in mind in view of the underlying purpose to be served: the achievement of intensive economic and social development combined with stability. Prior to the second of these meetings, special studies on the tax systems of selected Latin American countries would be carried out.
- (c) At the ninth session of ECLA (Santiago, Chile, 4 to 16 May 1961) and at the Special Meeting of IA-ECOSOC at Ministerial Level (Punta del Este, Uruguay, 5 to 17 August 1961), two resolutions were adopted^{1/} in which it was recommended to the member Governments of both organizations that they should give their fullest support to the OAS/ECLA/IDB Tax Program and specifically to the work of organizing the Conference on Tax Administration and to the Conference itself.

- (d) During 1961, members of the Co-ordinating Committee of the Program visited nearly all the Latin American countries in order to study the problems affecting tax administration and systems in the region. To this end, and with a view to selecting the participants who were to attend the Conference, the Co-ordinating Committee established contact with leading experts and specialists in the tax field. Steps were also taken to determine the topics for discussion, which recognized authorities on the subject were asked to analyse, while experts in Latin America itself were invited to present the relevant commentaries.
- (e) The object of the present Conference was to discuss practical technical norms which might be applied to tax administration in order to strengthen and perfect it. This was the main reason for initiating the activities of the Joint Program in that way, since there can be no doubt that the fiscal and extra-fiscal aims of any tax system - however satisfactory - would be illusory in default of an efficient tax administration.
- (f) By bringing together university specialists from the whole of Latin America, administrators and high-ranking tax officials, the Conference afforded an opportunity for discussion between those who approach tax problems from a purely theoretical standpoint and those who are engaged in solving them at the practical level. This made it possible for the topics of the agenda to be more comprehensively and thoroughly analysed, without detriment to the technical and practical character which it was thought desirable to give to the Conference so that its findings might be useful to the tax administrator.

3. The present report on the Conference is divided into two parts. The first gives an outline of the activities of the Conference and of the membership and attendance, and describes how the work was arranged. The second part consists of the summary records of the meetings of the Conference. The annexes comprise the complete list of participants and observers (annex I), the relevant paragraphs of a document issued by the Organization of American States at the Special Meeting of the Inter-American Economic and Social Council at Ministerial Level (Punta del Este, Uruguay, August 1961) (annex II), and the ECLA and IA-ECOSOC resolutions relative to the Program (annex III).

4. Substantial changes will be incorporated in the definitive presentation of the final report, which will be published in printed form by the international organizations sponsoring the Tax Program. In principle, it will comprise the eight background documents which were discussed as agenda items^{2/} accompanied by the pertinent commentaries. The papers on each topic will be followed by a revised and technically edited version of the summary records which appear in the second part of the present report.

^{2/} See paragraph 16.

Part I

ORGANIZATION AND RESULTS
OF THE CONFERENCE

A. MEMBERSHIP, ATTENDANCE AND ORGANIZATION OF WORK

1. Opening and closing meetings

5. The Conference was inaugurated on 11 October 1961 in the Hall of the Faculty of Economic Sciences of the University of Buenos Aires, under the chairmanship of the Rector of the University, Mr. Risieri Frondizi, and in the presence of Mr. Jorge Mehbe, Secretary for Finance. Addresses were delivered by Mr. Roberto Alemann, Minister for Economic Affairs, Mr. William Leslie Chapman, Vice-Rector of the University of Buenos Aires, and Mr. Pedro Mendive, senior economist of the Economic Commission for Latin America, who spoke on behalf of the OAS/ECLA/IDB Tax Program. Mr. Affonso Almiro, Director-General of Finance, Brazil, also addressed the meeting on behalf of the participants.

6. Messages to the Conference from Mr. José Antonio Mora, Secretary-General of the Organization of American States, Mr. Alfonso Santa Cruz, Acting Executive Secretary of the Economic Commission for Latin America, and Mr. Douglas Dillon, Secretary of the Treasury of the United States of America, were read out in the course of the opening meeting.

7. At their final meeting the participants in the Conference took cognizance of the provisional report of their proceedings, and empowered the Secretariat of the Program to recast it in its final form and introduce such changes as might be necessary to make it as complete as possible.

8. The closing meeting was held on 19 October 1961 in the Hall of the Faculty of Economic Sciences; addresses were delivered by Mr. William Sprague Barnes of Harvard University, Executive Director of the OAS/ECLA/IDB Tax Program, and Mr. Manuel Rapoport, Director-General of the Internal Revenue Administration of the Government of Argentina.

/2. Membership

2. Membership and attendance

9. The participants attending the Conference comprised fifty-two experts on taxation, from the following countries: Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, United States of America, Uruguay and Venezuela. In addition, fourteen experts from several of the above-mentioned countries and one from Israel were present as observers (see annex I).

10. Both the participants and the observers attended the Conference in a personal capacity and not as representatives of their countries or Governments. (It should be noted, however, that the OAS/ECLA/IDB Tax Program has the official approval of the Inter-American Economic and Social Council and of the Economic Commission for Latin America, which at recent sessions recommended to their member Governments that they should co-operate in preparing working papers and facilitate the attendance of national experts at the Conference.)^{3/}

11. Apart from the above-mentioned participants and observers, 115 Argentine experts designated by various official and university institutions attended the Conference and in some instances took an active part in the proceedings. The names of these experts and the institutions they represented are also given in annex I.

3. Organization of work

12. The directors of the Tax Program took the chair at the Conference and conducted the proceedings in rotation. In the case of each of the topics considered, the authors of the background documents presented and of the relevant commentaries were invited to share in leading the discussion by making an opening statement and suggesting lines of approach.

13. The Secretariat in charge of the work of the Conference was as follows:

^{3/} ECLA resolution 186 (IX) and resolution A.3 of the Charter of Punta del Este (see annex III).

Directors

William Sprague Barnes, Executive Director (Harvard University)

Alvaro Magaña (OAS)

Pedro Mendive (ECLA)

Technical Advisers

Boleslaw A. Boczek (ECLA)

Joseph Crockett (OAS)

Jack Heller (OAS)

Conference Officer

Juana Eyzaguirre Ovalle (ECLA)

Editorial Section

Francisco Giner de los Rios, Chief, Editorial Section (ECLA)

Frederick Fuller, English Editor (ECLA)

Administrative Officer

Edward P. Davies (OAS)

14. The following officials attended the Conference as representatives of the organizations jointly sponsoring the Program:

Organization of American States

Walter Sedwitz, Director, Department of Economic Affairs

Economic Commission for Latin America

Julio Valdés Hertzog, Secretary of the Commission

Inter-American Development Bank

Mario O. Mendivil, Executive Director

James Lynn

Eduardo McCullough

Alexander Rosensen

15. At the final meeting, the directors of the Conference entrusted Mr. Manuel Rapoport, Director-General of the Internal Revenue Administration of Argentina, with the task of summarizing the results which he considered had come out of its discussions and indicating the directions in which the Co-ordinating Committee of the OAS/ECLA/IDB Tax Program might proceed in order to cater for the needs and aspirations of the different countries in the field of tax administration. The ideas put forward by Mr. Rapoport are summarized in section C of this part of the report (paras. 17 et seq.).

B. AGENDA

16. The work of the Conference was planned in accordance with the following agenda:

1. Opening addresses
2. Preparatory meeting for participants
3. Common obstacles to efficient tax administration

Background documents

Information document^{4/} by Joseph P. Crockett

4. Estimating the distribution of the tax burden

The distribution of the tax burden in South America

Background documents

Panel presentation of the topics by Richard A. Musgrave

(OAS/ECLA/IDB/5 and 5/Add.3), and comments by Joseph Pechmann

(OAS/ECLA/IDB/5/Add.1) and Julio Herschel (OAS/ECLA/IDB/5/Add.2)

5. Statistical records for the management and control of tax administration

Background documents

Panel presentation of the topic by Marius Farrioletti

(OAS/ECLA/IDB/6), and comments by Afonso Almiro

(OAS/ECLA/IDB/6/Add.1) and Héctor Julio Becerra

(OAS/ECLA/IDB/6/Add.2)

^{4/} Issued in this form because the topic was included in the agenda at the last moment, and the author first presented it orally.

6. Automatic data processing and tax administration: the potentialities of automatic data processing and factors involved in its adoption

Background documents

Panel presentation of the topic by Stanley S. Surrey (OAS/ECLA/IDB/7), and comments by H.F. Herbert (OAS/ECLA/IDB/7/Add.1)^{5/}

7. Trends in management technique

Background documents

Panel presentation of the topic by Chadwick J. Haberströth (OAS/ECLA/IDB/8), and comments by Enrique Piedrabuena Richard (OAS/ECLA/IDB/8/Add.1)

8. Accounting, auditing and knowledge of business practices in relation to tax administration

Background documents

Panel presentation by Charles R. Taylor (OAS/ECLA/IDB/1) and comments by Teodoro Nichtawitz (OAS/ECLA/IDB/1/Add.1), Herbert R. Balls (OAS/ECLA/IDB/1/Add.2) and Alberto T. López (OAS/ECLA/IDB/1/Add.3)

9. Controlling income tax evasion

Background documents

Panel presentation of the topic by Oliver Oldman (OAS/ECLA/IDB/2), and comments by Karl Lachmann (OAS/ECLA/IDB/2/Add.1) and Manuel Rapoport (OAS/ECLA/IDB/2/Add.2)

10. Administrative criteria in the establishment of sales and excise tax structure

Background documents

Panel presentation of the topic by John F. Due (OAS/ECLA/IDB/4), and comments by Hugo de Marco Erviti (OAS/ECLA/IDB/4/Add.1) and Enrique J. Reig (OAS/ECLA/IDB/4/Add.2)

^{5/} Oral comments were also made by José Luis Quesada Fonseca and Carlos A. Velarde (see Part II of the present report, summary record of the fourth meeting).

11. Concepts and administration of taxes on property

Background documents

Panel presentation of the topic by Lyle C. Fitch

(OAS/ECLA/IDB/3), and comments by Enrique Colombo

(OAS/ECLA/IDB/3/Add.1) and Carlos M. Morán^{6/} (OAS/ECLA/IDB/3/Add.2)

12. General exchange of impressions on the practical consequences arising out of the Conference

C. OUTLINE OF PROCEEDINGS

17. In the course of the discussions and exchange of views that took place during the Conference, it became clearly evident that, apart from the special problems encountered by the various tax administrations of the Latin American countries, there are obstacles of a fairly universal type which, to a greater or lesser extent, impede their efficient operation.

18. Widely differing obstacles are of basic importance, and hence the problem of their removal makes an urgent and imperative claim to the attention of governments. Thus, the complexity, multiplicity and widespread nature of tax laws; the obsolete administrative structures and organizations; the shortage or total lack of regulations and instructions, both for the tax authorities and for the taxpayer; the shortcomings of accounting systems based on old-fashioned models and the deficiencies of auditing procedures; the lack of proper training for tax officials; and the definite allocation of the whole or part of certain taxes for specific purposes, have built up a form of administrative organization which, with the exception of a few concrete cases, may be considered typical in Latin America.

^{6/} This expert was unable to attend the Conference, but his comments on the panel presentation of the topic were distributed to the participants.

1. Major administrative problems

19. During the meeting at which the problems of tax administration were subjected to a general review, stress was laid on the virtual impossibility of efficiently supervising compliance with the tax laws where they result in an excessive proliferation of taxes. Neither the taxpayers nor the officials responsible for the application of the law and the control of tax liabilities have a proper working knowledge of the system. The defect referred to, deriving from systems based on a vast proliferation of taxes, might perhaps be remedied if the administrative structure were organized by segmenting the administrators into specialized groups. That is possible in a large country, but impracticable in a small one.

20. It was pointed out that there are countries in which the tax law has been codified and assembled in a single body of legislation, but that in other instances the lack of codes and even satisfactory compilations, hampers their administration. Nevertheless, the widespread system of establishing regulations by statutory decree could be turned to very good account for explaining tax legislation clearly and giving administrators a more thorough knowledge of the provisions of the law which would enable them to discharge their functions more efficiently. It would also be of use for instructing taxpayers on all aspects of their tax liabilities. Special emphasis was laid on the fact that while the introduction of tax reforms by means of decrees is a more flexible system, their success depends on the support of public opinion - based, moreover, on the stipulations of the constitution - and that can only be obtained as the result of exhaustive discussion by the legislature.

21. A basic requisite for efficient tax administration is the availability of manuals to acquaint personnel with the powers they are entitled to exercise in the execution of their duty and with the course of action to be pursued in specific cases. It is desirable that the taxpayer should be given appropriate instruction by the administration. As is the practice in many countries, explanatory booklets to improve the filling-out of tax declaration forms could be prepared, especially for those groups of taxpayers who, for various reasons, are particularly in need of enlightenment.

22. In several countries there are important limitations to the investigational powers with which tax administrations should be invested. In checking on those taxpayers who fail to declare part of their income, the inspector finds himself handicapped by inability to resort to sources of information other than the taxpayer himself. The situation is aggravated in many of the Latin American countries, where large sectors of taxpayers keep inadequate books and records or none at all.

23. Broadly speaking, the Latin American countries suffer from a lack or shortage of facilities for the technical training of their officials. Since such training is essential for satisfactory administration, the technical assistance facilities offered by international agencies and certain departments of the Government of the United States should be expanded and more intensively utilized. In this connexion, the Conference afforded an opportunity for the formulation of various useful suggestions as to the course that might be followed.

24. Another of the problems discussed was that relating to the desirability of centralizing taxation in a single government agency. It is definitely advisable that the right to collect a tax, wholly or in part, should not be granted to autonomous or decentralized bodies.

2. Consideration of the agenda items

25. Statistical calculations for the purpose of quantifying tax incidence are important because they can be applied to problems of both tax policy and tax administration. Calculation of the tax burden is essential in providing information and a basis of judgement for determining tax policy, whether designed to obtain more revenue for the Treasury, to redistribute income by making the system more progressive, or to promote economic development by what are called tax incentives. With respect to tax administration, calculation of the tax incidence can provide valuable assistance in assessing or quantifying such important problems as tax evasion.

26. It is hoped that the ingenious system proposed for estimating the distribution of the tax burden (on the basis of some quantification of

/the shifting

the shifting of the tax and its final incidence permitted by theoretical reasoning) can be adapted to the methods and information available, and to the special characteristics of the Latin American economy.

27. Mention should also be made of the discussion on the advisability of developing a method of measuring the incidence of import duties, which in some countries constitute the bulk of the tax revenue; the need for special treatment of exchange differences resulting from the differential rates applied to foreign trade; the importance of considering the distortions due to inflation and the need to take account of the structure of public expenditure as a factor capable of altering the distribution of the tax burden shown by taking the taxes in isolation. Consideration might be given to the possibility of applying the distribution pattern of certain countries to others with similar economic and social characteristics.

28. Although it is both desirable and necessary to establish a complete and integrated statistical system to provide the main data required for an efficient tax administration, that is made difficult in Latin America by the great shortage in many countries of technical staff trained in applying statistical techniques to tax administration problems.

29. The increased economic progress and the raising of income levels that can be hoped for in Latin America on the basis of present developments will considerably increase the volume of work of the tax offices in the future. Extension of the tax base will lead to an appreciable increase in the number of taxpayers and in the attendant paper work in those offices. Tax administrations must therefore be equipped and trained to enable them to carry out the additional work efficiently.

30. That is one justification for using modern electronic methods in tax administration. Administrative efficiency would be improved by the resultant boundless capacity to collect and combine data, and the speed and accuracy of processing.

31. It was also pointed out that automatic data processing would be highly desirable for a number of reasons; it facilitates statistical work; it enables returns to be verified and payments registered swiftly and

/accurately; it

accurately; it could be used in the processing of returns, settlements, bills and refunds; it enables taxpayers to be accurately identified; and it enables collateral sources of information to be drawn upon to facilitate the calculation of tax debts, etc.

32. The problems posed by the cost of the equipment can be clarified only when the relation between the cost and the increment in revenue collected as a result of the use of electronic computers has been determined, even though, to judge by statements made at the Conference, equipment is available in such a variety of sizes that it is within the reach of virtually every country. The transition from a conventional to an electronic system with its attendant difficulties does not seem to be an insurmountable obstacle, nor does the displacement and unemployment of personnel to which the changeover may lead. But certain legal problems are liable to arise in those countries whose legislation requires the original tax statement to be produced at judicial proceedings for the collection of tax debts. The proper programming and assessment of the work to be undertaken in carefully analysed stages constitutes, together with the foregoing issues, a problem that each country has to resolve in accordance with its own characteristics in order to reach modern levels of achievement in that field.

33. The important discussions on trends in administration technique show how much remains to be done in such matters as the permanence of the organization and the security of tenure of personnel, as well as the adaptation of the organization to technical progress without sacrifice of the experience laboriously acquired.

34. The lengthy debate on the topic of tax evasion left no room for doubt that it is the problem which causes tax administrators the greatest concern. Again, the high degree of evasion existing in the Latin American countries is directly related to the main problems which tax administrations encounter and solution of which depends upon the improvement of all the many aspects of the administrative system.

35. In this context, it is of interest to call attention to the analysis of the underlying motivations or causes of income tax evasion which gradually emerged from the discussion. The taxpayers' ignorance

/of the

of the law; the special characteristics and anti-tax mentality of Latin peoples; the lack of a properly qualified administration to assume responsibility for the implementation of the law; the disaffection provoked by the tax system and by the internal defects of tax legislations which are ill-adapted to the real situation of the country concerned; and the inappropriate uses to which governments put the revenue collected, seem to be the main causes of the high degree of tax evasion registered in Latin America.

36. In this discussion ways and means of eliminating or reducing income tax evasion were considered. The heaviest stress was laid on the need to devise and apply all the direct and indirect measures which might encourage conscientious and voluntary compliance on the part of the taxpayers. The system of penalties and legal sanctions - as a supplementary element in the creation of an efficacious system to promote the elimination of evasion - gave rise to divergent views, and even to objections, grounded on the idiosyncrasies common to Latin American taxpayers and the measure of immaturity that still characterizes the region's institutions.

37. The summary records of the seventh and eighth meetings, devoted to this topic, also outline the discussion arising in connexion with other ingenious methods of preventing tax evasion, which are in full process of development or are being experimented with in many Latin American countries.

38. With respect to administrative criteria for the establishment of sales and excise tax structures, the discussion dealt not only with the purely administrative aspects of the subject but also with those relating to tax policy. The economic impact of the various forms which such taxes may assume was also analysed to some extent. Their position in relation to total tax revenue was clearly established, as well as the role they must continue to play until national income is higher and more equitably distributed. It was for this reason that so much importance was attached to the suggestions formulated for improving the administration of such taxes.

39. There was an opportunity for full and useful exchange of information on the forms of real estate tax extant in several countries, the concepts dictating their selection and the ways in which are are administered.

The discussion was valuable for the purpose of comparing the modern methods and media that can be applied in the valuation of such property.

40. Throughout the whole of the discussion and exchange of ideas which took place at the Conference, it was clear that much remains to be done in the Latin American countries in the field of tax administration.

On the one hand, there are the requirements in respect of more widespread and accessible technical assistance, which would entail an expansion of the plans of those international agencies which are in a position to provide it. On the other hand, there is the need for well-organized training centres run on sound lines, to perform the highly important function of training properly qualified personnel for the delicate and complex work incumbent upon tax administrations.

41. In this field too the international agencies co-operate. But it must be recognized that despite this technical assistance, everything that is done to strengthen tax administration must be given a national bias, compatible with the real situation in the various countries and consistent with their own requirements and the resources at their disposal for meeting those needs.

42. It was felt that the general outcome of the discussions of the Conference undoubtedly represent a great stride forward in the work of this first stage of the OAS/ECLA/IDB Taxation Program, and provide valuable material for the preparation of the second conference, on tax policy, to be held in Santiago, Chile, in the course of 1962. An opportunity will then assuredly arise for the thorough analysis of the fiscal aspects of taxation, together with those relating to the economic incentives to more rapid and better balanced economic development

43. The last two working meetings were devoted to an exchange of impressions on the practical consequences arising out of the Conference. While an account of the discussions will be found in the relevant summary records, they will be summarized in the final version of this report, as has been done in the preceding paragraphs for the other topics discussed.

Part II

SUMMARY RECORDS OF THE MEETINGS
OF THE CONFERENCE ON TAX ADMINISTRATION

SUMMARY RECORD OF THE FIRST MEETING
held at Buenos Aires, Argentina,
on Thursday, 12 October 1961, at 3.25 p.m.

Chairman: Mr. BARNES

CONTENTS:

Common obstacles to effective tax
administration

COMMON OBSTACLES TO EFFECTIVE TAX ADMINISTRATION

The CHAIRMAN explained the procedure to be followed at the meetings of the Conference. Authors would first introduce their papers, and participants would then be invited to comment on the particular topic under discussion. He called on Mr. Crockett to present his paper: Common Obstacles to Effective Tax Administration (Information Document).

Mr. CROCKETT explained that his paper outlined the various problems concerned, without offering any solution to them. One of the chief obstacles to effective tax administration was the multiplicity of taxes - in some countries they ran into hundreds. That made it extremely difficult, if not impossible, for the operating personnel of the respective tax departments to familiarize themselves thoroughly with the taxes which they administered and with the general body of taxpayers subject to those taxes. A country with a large number of tax administrators could solve the problem by segmenting the administrators into specialized groups, each dealing with a few specific taxes. However, specialization was impossible in a small country except in the sense that three or four taxes or tax groups tended to be singled out for attention while the remainder were neglected, not only by the revenue agents but also by the public.

Another problem was the lack of tax codes and compilations, particularly in the countries where the multiplicity of taxes was greatest. Such a situation precluded orderly tax administration and would have to be remedied.

Stressing the need for comprehensive regulations, he said that the existing system of regulatory decrees in most countries could be used to explain the tax legislation and thus provide the information needed to enable the administrator to carry out his official duties and the taxpayer to discharge his tax obligations.

A disadvantage in a number of countries arose from the fact that internal taxes were not administered by a single agency but by several departments. That made unified control and uniform application of the law impossible.

/An operational

An operational manual for tax administration personnel - for internal use only - was highly desirable; but in many countries there was no such manual to acquaint the administrator with the powers he possessed and the course of action he should follow in specific circumstances.

Proper instructions for taxpayers, preferably in booklet form, would be most useful in helping them to fill out their tax declaration forms; but they too were lacking in some countries. Again, tax declaration forms should be issued free of charge to the public and not be subject to payment of a small fee or purchase of a government stamp, as was the case in a few countries.

The failure of the taxpayers in some Latin American countries to keep proper books and records prevented the tax administrator from accurately computing the tax due. The preparation of statistical data on, say, the proper relationship between gross receipts and net profits, would be a considerable convenience to the administrator.

The investigational powers of Tax Departments were limited in many countries. If the taxpayer failed to declare all his receipts, the revenue agent was unable to obtain the information from other sources, such as the taxpayer's bank. The agent was usually told that the information could not be disclosed. The question should be thoroughly investigated, as should also the case of contractual arrangements such as existed between a domestic corporation wholly owned by a foreign firm and the parent firm. The arrangements were often such as to reduce the profits of the domestic corporation and thus the taxes to which it was liable.

The adequate training of tax personnel was essential. It existed to a limited extent in some countries but should be extended to all. The tax administrator could also benefit by direct contact with the taxpayer.

The question of corruption and graft, arising from the temptations to which government employees were exposed, was most difficult to solve in many countries. The system of inspectors who secretly investigated

the conduct of tax personnel was to be recommended and would inspire confidence in the integrity of the staff. Tax inspectors should also be paid a reasonable salary which would make it unnecessary for them to accept additional work, usually for some taxpaying firm, thus dividing their loyalties.

Lastly, the practice found in some countries of granting by law to an autonomous entity the right to all or part of a specified tax should be discouraged. All taxes should be remitted to a centralized government agency.

Mr. DARDON emphasized the desirability of explaining the philosophy or the underlying aims of tax law to the taxpayers, so as to make them fully acquainted with its scope and with the obligations it laid upon them. With respect to specific taxes established to finance public works undertaken by private firms, even subject to inspection or supervision by the public administration, it might be dangerous to make the firms in question directly responsible for collecting the tax. In any event, the system would infringe the principles of unity of the exchequer and budgetary unity obtained in many countries.

Mr. CROCKETT expressed agreement with the previous speaker's first point. As for his second point, the difficulty was that the tax administration usually lost control of the Government's financial policy. Hence, outside collection agencies should be discouraged.

Mr. TORRES AHUMADA described the preparation of the 1960 tax code currently in force in Chile, setting forth the background data on which it was based and the procedure followed in its formulation, up to the point when the relevant legislative decree (No. 190) was promulgated by the President of the Republic. The procedure in question had been chosen in order to ensure that a codification achieved as a result of so much hard work might be viciated in the course of discussion by the legislature. Authority to promulgate the code was granted by the National Congress. However, only the procedural and adjectival sections of the code were in fact promulgated. A printed summary of the code referred to was at the disposal of the participants in the Conference.

/Mr. ALMIRO

Mr. ALMIRO did not see how the two points in Mr. Crockett's statement, namely the need for training tax administration experts specializing in each separate type of tax and the desirability of a single central Tax Department, could be reconciled.

Mr. CROCKETT said that in countries where the tax staff was large, the practice was to divide the personnel into groups specializing in specific taxes. As a rule a particular group was not familiar with the rest of the taxes. It was therefore preferable to have a single Tax Department responsible for tax investigation and collection under a uniform body of laws.

Mr. PIEDRABUENA said that Mr. Crockett's remarks were very comprehensive, and to introduce new comments would be anticipating the work not only of the current Conference but even of the next. He informed the meeting that a Training School for Internal Revenue Service personnel was already functioning in Chile with the collaboration of the International Co-operation Administration (ICA) and the United States Internal Revenue Service. It now provided a complete course of instruction for beginners, and another at a higher level - i.e. for inspectors and supervisors - was being started. As a means of providing further information concerning the institution in question, he asked that a pamphlet he had brought with him to the Conference (OAS/ECLA/IDB/8/Add.1) be distributed to participants.

The CHAIRMAN said that training would be discussed under each of the topics to be debated.

Mr. CAPLIN stressed the importance of a satisfactory relationship between the tax administrator and the taxpayer. He agreed that the proper codification of tax laws and suitable regulations would benefit both the administrator and the taxpayer. He further agreed that the preparation of simple tax declaration forms was essential.

Mr. LOPEZ BARONA referred particularly to the problem arising from the fact that the tax administrator was not involved in the preparation of legislation for the establishment of the tax system. However excellent that system might be, its authors were unaware of the real difficulties

of tax collection, their only concern being: (a) to collect the maximum amount; (b) to reduce to a minimum the cost of collection services and the time involved; and (c) to ensure strict compliance with the tax law. It was highly desirable for the administrator to take part in the formulation of the tax laws, so as to become familiar with their aims and objects. The training of personnel was undoubtedly important, but it must not be forgotten that the lack of security of tenure and stability in such occupations - one of the main problems of public administration in Latin America - militated against it. There were two solutions to the problem: to establish a civil service and to grant a measure of autonomy to the tax collection offices in regard to their internal organization. In short, there must be an end to political interference of any kind in tax collecting and administration; and that could only be achieved by allowing tax administrators to take part in the drafting of tax legislation and making provision for the training and security of tenure of tax personnel.

Mr. REIG said he would like to add a few remarks on the necessity for a comprehensive tax reform on a sound basis. That described by Mr. Torres Ahumada might serve as a model without prejudice to the legislation approval being studied by commissions with the help of expert groups. For such a reform to be effective it should not be hastily improvised like those instituted in legislatures which lacked the appropriate technical experts and where politics were the only determining factor. The Chilean reform had been prepared by slow degrees and in a proper series of stages, and it promised to be an ideal procedure for establishing sound legislation in line with public opinion. He hoped that in Argentina tax reform would be tackled on the basis of preparatory studies carried out by properly qualified experts who would help to sound the views of the various professional and public sectors concerned. Reference had been made to the training of administrative personnel, and he felt that consideration ought also to be given to the training of high-level experts. Harvard University constituted a model in that respect, in that it produced graduates qualified to advise Finance Ministers

/and to

and to collaborate with Congressmen in drafting tax legislation. He stressed the role which the universities might play in that connexion.

While the need for tax codification was indisputable, he considered it likewise essential to have adequate administrative regulations and interpretations which should be given wide publicity. In his view, the Latin American administrations were for the most part remiss in issuing regulations and interpretations, so that valuable basic ideas escaped the attention of the community. He therefore suggested that procedural legislation should make this mandatory if a law or regulation was open to misinterpretation.

Mr. MONTERROSO, referring to the remuneration of personnel wondered whether the staff of the supervising agency ought to earn higher salaries than the personnel of the agency supervised. This was the view taken in his country by the Superintendencia de Bancos vis-à-vis the Banco de Guatemala, the central bank of the country, despite the fact that the technical qualifications and competence were the same in the two cases.

Mr. CROCKETT said that the question of adequate salaries was indeed difficult. However, irrespective of their technical qualifications, where government employees were exposed to graft, the fact should be taken into account in their salary scale.

Mr. BECERRA stressed the importance of the various points touched upon by Mr. Crockett in his statement, in view of the fact that they were common to all the Latin American countries. A steady process of tax reform, whether through legislative or administrative channels, was conducive to the proliferation of tax laws, a fact which in turn necessitated their periodic revision or codification in a forward-looking spirit. The need in question was not incompatible with the careful technical formulation of tax laws, as was exemplified by Colombia's income tax reform, which had been regarded as a model. He recognized that it was easier and quicker to introduce reforms by decree, but it seemed to him undeniable that an essential requisite for the success of tax reforms was that they should be acceptable to public opinion,

/whose support

whose support could only be obtained through Congress and in the course of the discussions of the legislature. In his opinion, the best way to make the technical preparation of tax reforms compatible with the special features of the legislative process would be to allow the Government to maintain its right to put forward proposals and leave to Congress the work of formulating legislation, always in close co-operation with the Government itself. That was the procedure which had been adopted in Colombia for the income tax reform and which had enabled due consideration to be given to the social aspects of the tax.

He also agreed with Mr. Crockett as to the advantages of establishing a centralized tax administration. Again with reference to Colombia, and to its income tax, which was the most important tax in that country, he pointed out that decentralized organization had proved an out-and-out failure, whereas centralization had yielded extraordinarily valuable and significant results in the course of only a few years.

In conclusion, he stressed the importance of training programmes for administrative personnel, which were likewise being carried out in Colombia as part of the establishment of a civil service in that country.

Mr. COSTA felt that the comments made so far had been confined to the short-range point of view. The recommendations of the Conference should also refer to the long-range view. In that connexion, the discussion should include political, social, economic and educational problems. The political structure of countries was important because some Governments lacked confidence whereas others appeared to be overconfident. The question of political favours, ad hoc administrations and so forth should be touched upon. The social structure was important because of class distinctions and the virtual impossibility for the lower classes to move up the social ladder. Economic problems should include the question of under-employment or unemployment, with broad masses of the population barely able to make ends meet. The lack of schooling of the bulk of the inhabitants in most under-developed countries should also be considered.

/He hoped

He hoped that the Conference would issue a broad statement of objectives with respect to fair tax administration practices, which would be of general application to all Latin American countries.

The CHAIRMAN pointed out that the participants in the Conference did not represent their Governments. Hence, no resolutions would be produced. He hoped, however, for a consensus of opinion on the type of conclusions reached.

The meeting rose at 5.5 p.m.

/SUMMARY RECORD

SUMMARY RECORD OF THE SECOND MEETING
held at Buenos Aires, Argentina,
on Friday, 13 October 1961, at 10 a.m.

Chairman: Mr. MAGAÑA

CONTENTS:

- Objectives of the Tax Program
- Estimating the distribution of the tax burden
- The distribution of the tax burden in South America

OBJECTIVES OF THE TAX PROGRAM

The CHAIRMAN invited Mr. Sedwitz to describe the objectives and background of the joint OAS/ECLA/IDB/Harvard University Tax Program.

Mr. SEDWITZ began by describing the aims of the programme. Latin America had embarked upon a unique plan to promote the economic and social well-being of its peoples. In the fifteen years that had gone by since the end of the war, despite the increase in export earnings, the Latin American economies had witnessed no very great progress in respect of either structural reform or the improvement of the level of living of the broad masses.

If it was to solve its problems, Latin America would have to find some way of reconciling - through its economic policy and its public administration - its aims in respect of social betterment and higher levels of consumption with its desire to speed up the rate of public and private investment and promote capital formation. To that end, it was essential to formulate integrated economic and social development plans or programmes, in order to avoid the waste of resources and the social tensions that often accompanied the industrialization process.

The principal aim of the tax programme was precisely that of radically reforming the Latin American tax systems in order to turn them into efficacious instruments of economic and social programming. Consequently, the programme whose initial phase was now beginning would have to be developed on a basis of programmes and plans for practical actions, designed in accordance with the principles of the Act of Bogotá and the Punta del Este Charter. In particular, it would have to be closely co-ordinated with the work of the Committee of Experts on Development Planning, to be created within the next few weeks under the terms of the Charter. The function of the committee would be to study the development plans submitted by Governments for its consideration, and the tax programme would undoubtedly be able to provide it with essential information for the establishment of basic principles for a development policy.

/The joint

The joint tax programme should be looked on as a long-term project, whose target in its initial stages would be the improvement of tax administration and the formulation of principles to govern tax policy in the Latin American countries in relation to economic development. That was the purpose of the current Conference and of the one which is to be held during the coming year. It was also planned to make a thorough analysis of the fiscal situation in the Latin American countries, not merely for the sake of satisfying academic curiosity, but with a view to grappling with practical problems and co-operating with Governments in the effort to solve them satisfactorily. It was not a matter of promoting indiscriminate tax reform but of introducing those changes which the above-mentioned research suggested and those which the improvement of tax administration called for.

The current Conference and the one to be held during the coming year were of outstanding importance within the programme since apart from the interest of the topics discussed they afforded an opportunity for the exchange of ideas and experience by specialists whose position as technical experts allowed them to state their views more freely than government officials often felt at liberty to do. Moreover, the consensus of opinion created at the meetings would spur Governments on to adopt the specific tax measures concerned.

The joint tax programme implied the initiation of activities which until then had not received the attention they deserved, not only on account of their repercussions in the economic sphere but also because they opened up possibilities of attaining such social objectives as human equitable income distribution and the more efficient utilization of human resources through better educational, public health, housing and other services. The programme had taken into account the importance of creating favourable conditions for the encouragement of private investment, which was essential for dynamic economic progress within the framework of free institutions.

Mr. BARNES described the procedure to be followed for the presentation of each topic. As the commentators on the different subjects had not in all instances had sufficient time to prepare papers giving the particular standpoint and experience of their respective countries, it was important for information of that kind to be exchanged during the meetings.

He also informed the participants that a manual on income tax administration was being prepared jointly by the United Nations and the Harvard Law School International Program in Taxation. The final version would be ready early in 1962, and in the meantime each chapter would be sent to the participants as it was completed.

ESTIMATING THE DISTRIBUTION OF THE TAX BURDEN
THE DISTRIBUTION OF THE TAX BURDEN IN SOUTH AMERICA

The CHAIRMAN invited Mr. R.A. Musgrave to present his papers: "Estimating the distribution of the tax burden" (document 5) and "The distribution of the tax burden in South America".

Mr. MUSGRAVE said that since the practical and technical problems of tax management were the primary concern of the present tax conference, it was perhaps unfortunate that the first working session should be devoted to an abstract and highly speculative subject. He stressed the fact that the figures given in his tables and in the comments by Mr. Herschel were hypotheses rather than statistics, and had a theoretical basis. That type of information was, however, very important for the development of a sound fiscal policy, since the benefits of public expenditure programmes should be related to their costs and to the distribution of the burden of paying for them. Similarly, it was necessary to know the way in which the application of tax policy affected income distribution, since the reactions of the different income groups had repercussions on such essential factors in the economy as the level of investment and structure of demand, etc.

Turning to the salient problems involved in making speculative estimates, with particular emphasis on the nature of the problems, he

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said that the first was to determine the taxes that should be included in such an analysis. Most of the major general taxes comprising a country's tax structure should be incorporated, but in the case of special items, such as payroll and gasoline taxes, it might be argued that they should be excluded unless the corresponding benefits (e.g. transfer payments for the former) were taken into account. Ideally, both aspects should be considered, but failing that, it seemed more sensible to deal with revenue only.

He pointed out that his analysis dealt with the way in which the actual tax burden was distributed, an approach which was typical of that adopted in various European countries. Mr. Herschel, on the other hand, had endeavoured to cover also the allocation of non-tax receipts - a subject which might be discussed later.

The second problem was how to define the groups among which the tax burden should be allocated. He had selected spending units arranged by income brackets. It seemed to him to be the best way to approach the problem for most countries, since it disclosed whether a tax was progressive or regressive. There were other methods, of course, such as distribution by factor shares, or by type of activity. If his own approach were used, some important technical questions had to be decided beforehand. The first was how to define income. Income distribution was affected by the choice of concept; for instance, the inclusion of non-monetary income favoured the lower end of the scale and therefore made the tax distribution appear more progressive. The second was how to define the income-receiving unit, one possibility being the family and another the spending unit. In that case also, the choice made affected income distribution and ultimately the incidence of the tax burden. Those points should be borne in mind when the results of inter-country comparisons were being analysed.

In the actual preparation of estimates, the initial and most important step was to allocate the tax burden among taxpayers by income groups. The second was to obtain the effective rates of tax by taking the ratio of taxes imputed to each groups to the income received by it.

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With respect to the nature of the problem of allocating tax payments by income groups, it was important to remember that economists were still unable to isolate and assess the distribution effects of tax changes from those of other changes in the economy, since they were usually inextricably mingled. Their assumptions were therefore entirely theoretical.

Discussing the most important types of tax individually, he dealt first with income tax. The assumption that the burden of income tax was borne by the person who paid it was acceptable, though in the United States and similar countries, some tax shifting occurred at the top end of the scale because the higher salary rates were set before tax.

The incidence of the tax on corporation or capital income was much more difficult to determine in the United States because of the serious shortage of accurate data. He assumed that the problem was less acute in Latin America, since the tax would not occupy such a large proportion of the total structure. Opinions differed as to the imputation of the tax, some believing that it should fall on profits and others that, under present market conditions, it should be borne by the consumer. In his own estimates, it was assumed that one-third of the tax fell on the consumer and two-thirds on profits.

Commodity taxes were an important part of every tax structure particularly in Latin America. It was generally and reasonably assumed that the burden of such taxes was passed on to the consumer, though it was not impossible for the firms concerned to pass it back to its employees or capital or materials purchased. Imputation to the consumer implied an allocation in accordance with consumption expenditure, the pattern of which would vary for different products.

Tables 1 and 2 in his paper contained the essential data for determining a country's over-all tax structure. To make the sort of analysis undertaken in the paper, the first step was formulate hypotheses and the second to obtain the requisite statistics on distribution of tax receipts, income distribution, total income and different types

of income and expenditure. In the United Kingdom and the United States it was easy to obtain such information, but he assumed that data on income distribution were unavailable in Latin America and that details on consumption expenditure patterns were hard to find. In their absence, the method adopted by Mr. Shoup in Venezuela, namely to take typical families and decide what taxes were imputable to them, was calculated to achieve results that were almost as useful as those obtained in other ways.

He next referred to the tables in his second document and gave a brief explanation regarding their contents. Table 6 corresponded to table 2 in the first document, since it showed the distribution of effective rates of tax. The pattern was very uneven, being progressive from the first to the second quartile, and regressive from the second to the third in most countries. It was very similar to the pattern obtained by Mr. Shoup in Venezuela.

One of the aims he had had in mind when preparing the paper was to show whether income tax was progressive or not; to indicate in fact, at what point in the scale the tax was first applied. His findings were given in table 7.

Mr. HERSCHEL said that any analysis of the type described in the paper in question was bound to be purely hypothetical in under-developed countries.^{7/}

Tax incidence depended on conditions in each individual country, and was affected by the market situation and the attitude of entrepreneurs. A prerequisite for any tax measure regarded as a desirable means of expediting economic development and stabilizing or redistributing income was some notion of who paid the taxes. One of the serious obstacles to carrying out such studies in Latin America was the shortage of data.

As Mr. Musgrave had said, the first step was to ascertain what taxes were to be included. He personally thought that inflation ought to be considered as a supplementary tax. Not only would the effects of fiscal policy have to be studied, but also the influence of other monetary and credit instruments on income distribution.

^{7/} See document OAS/ECLA/IDB/5/Add.2

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When an attempt had been made to apply Mr. Musgrave's method in Argentina, income had been broken down by remuneration of the factors of production, classified as wage-earners and non-wage-earners respectively. The system was obviously deficient, since the second group was not broken down into subdivisions.

Again, the differences in the legal structures of the various individual countries altered the premises on which the analysis was based. Thus, in Argentina the special features of the income and inheritance taxes entailed changes in the relevant assumptions as to incidence. The application of different taxes to the two income groups was a mere hypothesis, which diverged from the Musgrave theories, and was determined by the characteristics of the special taxes levied on corporations in Argentina. The other taxes did not display any unusual features.

Clearly, in Mr. Musgrave's endeavour to apply the method of distribution of the tax burden to various South American countries the assumption that they all had the same income distribution pattern as Venezuela could only be a conjecture, since the relevant characteristics were sure to vary from one country to another.

Lastly, the speaker drew attention to the special problems arising out of economic development in connexion with the estimating of income redistribution, since there would have to be co-ordination with a projection of the changes that income distribution would undergo as the economic structure developed.

Mr. PECHMAN explained that it was the purpose of his paper (OAS/ECLA/IDB/5/Add.1) to give the reason why he thought research work on tax burden distributions should be stimulated, and to discuss some problems of estimation. It was hard to believe that one could have an effective tax policy without having information of the type included in Mr. Musgrave's and Mr. Herschel's papers. Without that information it was not possible to proceed logically and effectively. An attempt to estimate such distributions would provide the incentive and the basis for collecting a vast amount of important statistical information

/for policy

for policy purposes and administration. Many significant policy conclusions had been derived from good distributions of income by income brackets.

Even in the United States there were gaps in tax returns information although only 10 million people were not included in the tabulations of individual income tax returns. In many countries the proportion was probably nearer one out of every eighteen included, as against 17/18ths in the United States; hence, it was necessary to provide a substitute for official tabulations. He urged participants, if possible, to co-operate with other officials of their Governments and with private research workers to obtain field surveys of distribution of income and consumption. Most countries had the basic resources of manpower and funds to carry out that work which although very technical, was not excessively expensive provided an efficient sample was used. In the United States fairly good information was obtained from a sample of 25,000 families.

Distributions of tax burdens would also be very helpful in tax administration. In the United States the data were first used by a group of people engaged in estimating the distribution of income and taxes by income brackets to estimate the under-reporting of interest, dividends and other income. Today the Administration had recommended the adoption of the withholding system for interest and dividends, partly on the basis of that information.

The effort to obtain distributions covering the entire income of a country inevitably led in the direction of determining the extent to which taxes were being enforced adequately. About ten to twelve years previously, the Internal Revenue survey actually had sampled several hundred thousand returns and audited them to provide estimates of reporting. That effort had been discontinued for economy reasons, but was now being reinstated. The details of that programme were discussed in Mr. Farrioletti's paper (OAS/ECLA/IDB/6), and Mr. Caplin would report on it.

He had not had an opportunity to examine the additional paper by Mr. Musgrave and the paper by Mr. Herschel. He expressed his concern over some aspects of Mr. Musgrave's distribution, which were very sensitive

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to the assumptions made. He referred to Mr. Musgrave's remark that he had found the percentages in the various quartile ranges in table 6 of his paper very erratic. It was quite possible, but not likely, that the effective rate curve was as erratic as shown in the table. That result might well be due to a slight inconsistency between the figures for the distribution of taxes and the distribution of income. However, Mr. Musgrave had provided a useful series of numbers with which participants would work and apply their more extensive knowledge of the particular situation in their own countries.

Mr. Herschel had a total effective rate of about 18 per cent, whereas Mr. Musgrave had a total effective rate of 12 per cent. An explanation of such a difference should be determined before making comparisons among countries. Finally, he would have preferred table 6 to be labelled "Distribution of Tax Burdens in a country like Venezuela", in view of the different distributions of taxes existing in various Latin American countries. The figures should not be regarded as a distribution of tax burdens in each of the countries represented in the table.

Mr. PIEDRABUENA expressed the hope that the method of estimating the distribution of the tax burden could be concretely and effectively applied in Latin America in the not too distant future. In his view, it consisted essentially in checking how far shifting took place. Mr. Musgrave, in some of his tables, had classified taxes as direct and indirect, but in fact that classification had fallen into disuse, since it was common knowledge that there were indirect taxes which could not be shifted, just as there were direct taxes which could.

Variations were observable in the extent to which shifting occurred, although it was undoubtedly greater in Latin America than in the United States. Thus, 100 per cent of the tax burden was probably shifted to entrepreneurial activities and sales in Latin America, apart from which the type of tax varied widely from one country to another. In Mexico, for example, only the schedular income tax existed, whereas in Chile it was combined with the supplementary aggregate tax. He did not know how far consideration had been given to the method of preparing the estimate when the tax was schedular, supplementary, or of some other type.

/In Latin

In Latin America, moreover, a variable came into play which did not exist in the United States. While it was true that taxes were applied in conformity with the taxpayer's capacity to pay, public expenditure was channelled primarily towards the lowest income brackets. A macro-analysis of income and expenditure would therefore be necessary in order to determine the benefits obtained by the less-privileged groups.

In Chile attempts had been made to study the question of whether taxation was progressive or not. In his view, its effect was neutral or slightly progressive. Tax samplings showed the workers' share - including entrepreneurs' remunerations - of the national income as the same. The third-category tax, which affected profits of enterprises, fell on the broad consumer masses, as did also the sales tax. Other taxes affected only the higher income brackets; cases in point were the second-category taxes on luxury goods and imports of automobiles, etc.

Briefly, in the Latin American countries the methods referred to, although they could not shed full light on the situation, might offer useful guidance.

Mr. HERSCHEL found the information on tax shifting in Chile interesting and agreed that there was no point in classifying taxes as direct and indirect; but he pointed out that the terms had not been used as a basis for the analysis of shifting, as an indication had been given in each case of how and in what proportion the tax burden was transferred. He concurred with Mr. Piedrabuena's opinion that an analysis of fiscal expenditure should also be made.

Mr. FERREIRA said that data relating to real currency values and inflation would have to be taken into account in estimating the distribution of the tax burden. When there was a loss of real purchasing power changes took place in the incidence of certain taxes, and the progressiveness of income tax in particular was liable to increase. On the other hand, during a period of inflation the revenue-yielding capacity of a flat-rate tax declined.

Another point to be considered was the question of the exchange differentials used in Colombia. They were equivalent to import or travel taxes and were of great significance for the Latin American economies. The same effect was produced by artificial exchange rates.

Mr. SIERRA felt that studies of the distribution of the tax burden by income category were a valuable instrument of economic development policy. Nevertheless, in view of the shortage of basic statistical data in the Latin American countries - and especially in Central America - a quicker and simpler way of carrying out such studies would have to be sought. Central America, where efforts were being made to achieve economic integration, was particularly interested in ascertaining the incidence of taxation on the industrialization process, tariff equalization and other activities implied in the creation of a common market.

Mr. GUERRERO stated that in Central America the lack of statistical data made a certain amount of ingenuity necessary in the collection of background information. His chief motive of concern in the case of Nicaragua - where the fiscal system was being revised at the moment - was the problem that a major proportion of tax revenue (51-75 per cent) was obtained from import duties, the income tax rate being only 5 per cent. The best way of determining the incidence of such duties on the various sectors of the economy was a topic which undoubtedly called for discussion at the Conference.

Mr. VELARDE referred to the papers presented by Mr. Musgrave, Mr. Herschel and Mr. Pechman, and said that although the techniques referred to were somewhat advanced, the fact that they could not be applied in exactly the same form in Latin America should not constitute an obstacle to a more equitable distribution of taxation, designed to ensure that more of the burden was borne by those with a higher capacity to pay. In 1960 the Revenue Administration in Panama had drafted two proposals for increasing tax revenue, one relating to income tax and the other to property tax, with the aim of transferring some of the tax burden from consumption to capital. With respect to indirect taxes, the Government also had devices at its disposal to ensure that the tax was not passed on into the price.

Mr. REIG said that the University of Buenos Aires had planned to undertake studies on the subject of the distribution of the tax burden in Argentina. The study plan had consisted of three stages: (1) research

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on the distribution of national income by income groups; (2) analysis of family consumption at various income levels; (3) the incidence of taxation. The first stage, intended as a sample to be taken concurrently with the census, could not be carried out.

He felt that, in spite of the limitations of the method adopted, Mr. Musgrave's classification of the tax burden by quartiles was most illuminating since it showed that taxation in Latin America bore heavily on the middle class. The question whether that was not damaging to a country would have to be examined, in view of the importance of the middle class as a source of the formation of enterprises and capital.

At the present time three groups were concerned in this type of research. The Di Tella Foundation had undertaken an extensive study, and would probably work with the University. An important group of private firms had publicly expressed their interest and would provide financial support.

Referring to the observations in Mr. Pechman's paper on the correction of income estimates, he said that in Latin America it was not possible to rely too heavily on the results of tax auditing as a means of correcting under-estimates in income statistics, because that would require the prior certainty that the degree of evasion was uniform at all income levels. He wondered what other methods could be used, and favoured requesting views on the subject, in particular from persons connected with the various economic sectors who could give the benefit of their experience.

Wage taxes for the benefit of social security services and taxes on petroleum should be regarded as taxes if they were compulsory contributions. With respect to the incidence of taxes on the income of corporations, he believed that principles based on experience in one country could not be applied automatically in another. In Argentina, for example, the proportion that could be shifted to the consumer was greater than that mentioned in Mr. Musgrave's paper with respect to the United States, because of the different level of demand competition in the markets.

The question of the consideration of import duties also called for special examination. The type of goods imported should be analysed; if they were consumer goods, the same rules should apply as for specific taxes on consumption, whereas if they were production goods - equipment and raw materials - and domestic production concentrated on mass consumption goods, the import duties should bear more heavily on the lowest income groups.

Mr. HART, referring to the distribution of personal income, had some suggestions to make with respect to sources of information. In Latin America the data obtainable from income tax returns were insufficient, but other useful sources existed, such as the Di Tella Foundation in Argentina and the Institute of Economics of the University of Chile. Family income and expenditure surveys could be carried out. Extremely interesting statistics could be derived from bank data. If the banks could analyse the cheques they normally kept in their possession in Latin America, without identifying the taxpayer or depositor, relationships between income and expenditure could be established. Many Latin American countries were not under-developed in the field of banking, and cheques were highly informative. In a study by Mr. Piedrabuena there were some very interesting tables relating to the distribution of employees' and workers' salaries and wages, on the basis of the withholding of fifth-category taxes by the employer firms.

He thought that, while it was difficult, it would be worth while to determine, with the help of sociologists, the way of life of taxpayers at given income levels. A combination of the data thus obtained from sources which by themselves would be inadequate would be of great value for determining the distribution of the tax burden.

Mr. MERZAN said that agreement was necessary on the fundamental assumptions discussed at the meeting. In the first place, there could be no doubt as to the importance of establishing an accurate measurement of the tax burden, which was of concern both to entrepreneurs and consumers and to government departments. Legislations varied too greatly for it to be possible to lay down standardized formulae that would serve for all

/countries alike.

countries alike. To overcome the difficulty, he suggested that bases for measurement in the various countries should be determined by means of a questionnaire under the auspices of the OAS/ECLA/IDB Tax Program. He endorsed the opinion that non-fiscal revenue should be included.

The rules for measurement would have to be drawn up by qualified economists or officials specializing in that field. The data compiled and processed on the basis of the questionnaires could be presented at the 1962 conference on tax policy.

The CHAIRMAN said that a purely provisional questionnaire had been prepared and it was hoped that it would be distributed to the participants for their comments before the end of the Conference.

Mr. SALAZAR considered that measurement of the distribution of the tax burden was also important from the administrative point of view because to know who paid the taxes and how much they paid was to know the so-called market or clientele in other types of administration. The behaviour of large firms and taxpayers was different from that of small concerns and taxpayers and required different methods and techniques of persuasion, tax administration and control. Because of these differences, Peru was seriously thinking of organizing its tax administration not by type of taxes or functions but by size of income and type of taxpayer activity, data for which could be provided in the studies on the distribution of the tax burden.

Mr. FERNANDEZ PROVOSTE was doubtful of the value of a study such as Mr. Musgrave proposed, because he felt that the analysis of the tax burden ought to form part of a study on national income; and also because he was sure that taxes were bound to shift to prices or wages and that they would not be paid by those nominally liable. The possibility of shifting depended not only upon the type of tax, but also on market conditions. Thus, for example, if supply exceeded demand the distribution of the tax burden would not be the same as when the reverse was the case. However, that was no reason why partial studies on the incidence of specific taxes should not be carried out.

Mr. PECHMAN said he would like to make two points. The first related to the question whether the Latin American countries had sufficient statistical resources at their disposal to make tax surveys. The shortage of data was undoubtedly acute, but he could urge the countries in the region to do as much as they would with the material available. The second point was that ingenuity should be replaced whenever possible by actual data, and that a determined effort should be made to intensify data collection. When no information on income distribution was available, the method used in the Shoup report for Venezuela might be adopted, since its results had proved both interesting and useful.

He fully agreed with Mr. Hart that field surveys of income should be carried out by private firms rather than by the State, since people would be more ready to give them full and accurate information. The importance of the data acquired during such surveys should not be underestimated.

Mr. HERSCHEL thought that the distribution by quartiles used by Musgrave was really better than his own breakdown into two groups, though it had the drawback of introducing an additional assumption, namely, that income distribution in various countries was the same as in Venezuela.

Mr. MUSGRAVE said that the discussion had revealed the complexity of the problem and the differences between each country's experience and conditions. In that respect he agreed with the objection raised by several speakers to his assumption in table 6 of the second document that the pattern of income distribution in Venezuela would be applicable elsewhere. He also agreed that different assumptions on incidence should be made for each country, but he would point out that the primary interest of the economist was similarity rather than variety and that certain distribution patterns could be found which would undoubtedly be typical of a great many Latin American economies. One way to tackle the problem might be to select three Latin American countries whose tax structures had similar features and work out a

/methodology for

methodology for them which might subsequently be applied to other countries. In Latin America, as in other parts of the world, the best procedure would be to examine tax receipts first and include expenditure later.

He found Mr. Herschel's suggestions as to how to approach the question of inflation very interesting. The whole question was extremely important for many Latin American countries. Budget financing by means of deficits should not, however, be confused with financing by inflation.

The use of regulatory devices such as differential exchange rates was an interesting suggestion, and should be taken into account in analyses under the head of implicit taxes.

With respect to the need for simplification which had been mentioned by several speakers, it might be achieved by adoption of the method used by Mr. Shoup. If income groups were chosen as a basis the brackets should be very large, or else absolute levels of income should be taken.

He agreed with several speakers on the importance of data, but he was convinced that the type of analysis that was required could be made without a complete set of data. Contrary to the opinions expressed by Mr. Herschel and other participants he would have thought the difficulty of obtaining data to be less acute in under-developed countries, where a large part of tax revenue was derived from customs duties and commodity taxes on specific groups of products.

He pointed out that income distribution and policy were not entirely a question of budget policy, but were also governed by such factors as land tenure systems and industrial management. A distinction should likewise be made between the short-term and long-term effects of tax policy so that the requisite action might be taken in each case.

/Mr. HERSCHEL

Mr. HERSCHEL said that while the importance of customs duties in Argentina was great, it was not over-riding. With regard to the family budget studies carried out by Mr. Shoup, it was true that they were simpler, but they were not unattended by difficulties in respect of the amount of detail they furnished. Lastly, reverting to the problem of inflation, he did not think the method used to take account of it was ideal.

The meeting rose at 12.55 p.m.

SUMMARY RECORD OF THE THIRD MEETING
held at Buenos Aires, Argentina,
on Friday, 13 October 1961, at 3.25 p.m.

Chairman: Mr. MENDIVE

CONTENTS:

- Facilities for the training of officials
- Statistical records for the management and control of tax administration

FACILITIES FOR THE TRAINING OF OFFICIALS

Mr. CAPLIN described the programmes being carried out in the United States: a co-operative programme under which Latin American experts visited the States and another for sending American experts to other countries to study their systems and practices. In addition, the United States Internal Revenue Service would be hiring another 4,000 revenue agents during the current year, bringing the total number to 57,000. Half the new recruits would be trained in enforcement and would undergo a rigid course of training, either at Washington or in the field. Most of them were college graduates or of similar educational level. Training was related to the requirements of the locality in which it was given. One novel departure was the Programme for senior tax officials - potential leaders were chosen from the staff of the Service to be specially trained for management positions. Further, an experiment was being made with a scheme for Seconding Internal Revenue staff to help establish schools in other countries. He expressed the hope that English-speaking specialists from the Latin American countries would participate in those programmes whenever possible on an informal basis.

Mr. PHILLIPS read out a statement sent to the Conference by Mr. Fowler Hamilton, Administrator of the Agency for International Development (AID), expressing his gratification at the fact that three inter-American organizations had organized a Conference on Tax Administration and offering to continue and strengthen their service in tax administration.

He explained that AID offered a variety of training programmes adapted to the needs of particular countries. The individual training programmes were of several kinds, one of them for bringing personnel from foreign countries for practical observation programmes and occasionally for participation in high level programmes such as that of Harvard University. As far as possible, however, the present trend was towards group training programmes which offered the challenging possibility of mutual encouragement. For example, the workshop seminars provided an opportunity for discussing concepts and techniques,

/as a

as a preliminary to practical observation and experience. He envisaged the possibility of establishing regional seminar-workshops and regional centres for training at the higher levels. Recognizing the tremendous importance of training, Mr. Phillips went on to say that the experience of some countries pointed to other considerations as essential to success in improvement of tax administration: first, a real desire on the part of the government to improve tax administration; second, ample human and financial resources available to the tax administration, including security of tenure for tax personnel; third, a major increase in the number of people trained within the country itself; fourth, technical and administrative skills to convert ideas and plans into action. As those skills took some time to mature, foreign advisers frequently could speed up the process, as was now being done in Chile.

STATISTICAL RECORDS FOR THE MANAGEMENT AND CONTROL OF TAX ADMINISTRATION

The CHAIRMAN invited Mr. Farrioletti to introduce his paper:

"Statistical Records for the Management and Control of Tax Administration"
(Document OAS/ECLA/IDB/6).

Mr. FARRIOLETTI said that when he had been invited to prepare a paper on the statistical aspects of tax administration, he had decided to outline the requirements of a complete system. He had done so for two reasons, first because there was no previous literature on that particular subject, and secondly because it seemed to be the universal custom to develop tax administration statistics on a piecemeal basis without regard to the over-all requirements of the tax administration. The piecemeal approach resulted in a plethora of unco-ordinated statistics which could not be integrated in the general framework of the tax administration workload, the actual operations, and the part of the workload left pending. In addition, the paper provided illustrations of the statistics obtained in the United States and some of the statistical lessons learned by experience.

/The first

The first requirement discussed in the paper was the size and nature of the total tax administration job, of which there were two aspects, namely the "visible" workload and its measurement, such as the counting of tax returns and funds received and the administrative tasks performed on them, and the "invisible" workload, consisting of tax returns which should have been filed with the tax administrator but had not been submitted, and of errors in filed tax returns. The sum of the visible and invisible workloads constituted the total workload. Changes in the non-filing and tax error patterns over the years could be analysed to determine whether important changes had taken place in the levels and nature of taxpayer compliance and non-compliance with the tax laws.

The second requirement was the establishment of the portion of the total workload that was in fact accounted for by current operations. The statistics required should be obtained in a manner compatible with the statistical materials used to measure total workload.

The third requirement was the establishment of the tax administration gap, namely the difference between current operations and total workload.

The three remaining requirements discussed in the paper related to the effectiveness of current operations, the undertaking of research to increase efficiency and the determination of the portion of the tax administration gap that was worth filling under the existing tax administration system. To ensure the effectiveness of current operations, a financial plan was needed to allocate available resources among the various tax administration tasks to be performed. In addition, the rates of expenditure of the allocated resources should be furnished. After the financial plan was put into operation, it should be checked to determine the results it produced. The degree to which the total tax administration gap should be closed depended on how far each component gap was worth filling under existing methods, procedures and costs. That was an economic question which too frequently lent

/itself to

itself to controversy because of the absence of reliable statistical data, properly analysed and presented.

The final section of the paper discussed the need for developing research in tax administration to reduce the costs of enforcement essential to the closing of more of the tax administration gap. A plea was made for research to determine the ability and willingness of the taxpayer groups to comply with the tax laws. However, the methods and procedures involved in such research were difficult and required skilled personnel not easily obtained.

Mr. ALMIRO referred to document OAS/ECLA/LDB/6/Add. 1, containing his comments on Mr. Farrioletti's paper. With respect to the possible application of Mr. Farrioletti's experience to Brazil, he explained that the Brazilian tax structure was based mainly on indirect taxes, which made it more difficult to obtain statistical data. Although the administrative system was a single whole covering the three levels of government, tax statistics were not a part of that system, since it was the respective collection services that provided the statistics on which the studies and analyses were based. He had no specific suggestions to make, but he wished to submit a proposal for the consideration of the organizations sponsoring the present Conference. As statistics usually differed from country to country and did not permit of the kind of objective international comparison that was desirable, the statistical conference at Petropolis, organized by the Organization of American States, had recommended the establishment of uniform rules for the government budgets of all Latin American countries. In Brazil the states and municipalities had already attained such uniformity in tax nomenclature and patterns, while respecting local peculiarities. If that was important at the national level for facilitating comparative studies, it was equally important at the international level. Perhaps the present Conference might adopt some similar proposal, since anything that encouraged international
/uniformity of

uniformity of practice on the basis of uniform nomenclature, methods of collection and statistical presentation could count on general support.

Mr. BECERRA briefly summarized his comments (Document OAS/ECLA/IDB/6/Add. 2) on Mr. Farrioletti's paper. While recognizing the importance of the need to establish a complete and integrated system of statistics, he pointed out that the lack of properly trained staff made it difficult. For that reason the facilities offered by the United States participants for the training of tax administration staff were of the greatest value. Statistical data could be obtained as a by-product of normal collection operations, and that was done in Colombia, the information being published in the Boletín de Estadística, an official publication which, although it did not represent a complete and integrated system, was very useful both for administrative staff and for the general public. A comparison of the taxpayers' accounts, based on their own returns, with the national accounts, would show up tax errors or evasions. However, the systems used in Colombia was by no means perfect, and the proposals in Mr. Farrioletti's paper might help to remedy its defects. The only objection to those proposals was the somewhat abstract and theoretical nature of such matters as establishing how much of the total tax administration job had been done and how much remained to be done, estimating the cost of collection services and the return on them, and assessing the degree of voluntary taxpayer compliance. He considered that the other suggestions in the paper were easy to apply, although likely to be hampered by the lack of sufficient adequately trained staff. In Colombia, for example, there were few statisticians and administrative officials who had the required experience in both the administrative and tax fields. The training of staff abroad might make it possible to round off that experience, provided there was careful selection to ensure that the successful candidates had sufficient experience in their own country and were sufficiently mature to assimilate the new knowledge they would acquire, and that there were safeguards against the waste or wrong use of the officials thus trained so as to ensure

/that the

that the tax administration received the full benefit of the experience they had acquired.

In conclusion he spoke of what would be the logical order for putting into effect Mr. Farrioletti's recommendations, and described the existing organization of tax administration in Colombia, which gave priority to current statistics over statistics relating to future and perhaps hypothetical activities.

Mr. MONTERROSO suggested that for the Central American countries the Advanced School of Public Administration for Central America (Escuela Superior de Administración Pública América Central - ESAFAC) might be asked to undertake a special training programme for tax personnel, mainly designed for staff already engaged in such activities who have had some university training. The work which the School had already done in other fields, its experience and authority, and the fact that it had been set up under the auspices of some of the agencies sponsoring the Conference, all augured well for the success of such a project.

Mr. PIADRABUENA endorsed Mr. Becerra's views as to which of Mr. Farrioletti's suggestions were feasible and which were difficult to apply, while fully recognizing their possible usefulness for Latin America. He attached only relative value to detailed cost statistics because, in view of the extent of tax evasion, it would be more useful to allocate additional resources to combat evasion and because there were intangible benefits that could not be immediately measured, such as restoring taxpayer morals. With reference to the tax statistics collected in Chile, he maintained that statistics on the detection of error, if given a coefficient consistent with their importance, were also useful for the qualitative evaluation of the work of personnel, and much more useful for that purpose than the rough system based on the amount collected, as well as for guiding tax administration. Many advantages also attached to the establishment of a tax programme at the national and zonal levels in which due consideration was given to seasonal variations, since it not only made for more efficient

/control and

control and administration of the tax yield but also enabled revenue to be realistically estimated for budgetary purposes, when compared on a monthly account and area basis with actual returns.

Mr. CABEZAS stressed the unquestionable importance of costs and returns statistics for collection services, and also of mechanization. Statistical data of that nature would make it possible to calculate the extent of the delay in Bolivia in the operations of the collection services, and stimulate their enthusiasm by administrative procedures. Statistical information would also make possible comparisons with corresponding periods for earlier years, which were always helpful.

Mr. FARRIOLETTI agreed that he had proposed an abstract system any portion of which could be applied in any country. It should, of course, be adapted to the requirements and means of the individual State. He endorsed Mr. Almiro's suggestion that a set of rules should be agreed upon for reporting statistical and budget data.

On the question of costs, he had referred in his paper to actual cost, knowledge of which was more important in the case of a small tax force since misapplication had greater tax significance than in countries with a large force.

Finally, there was no point in developing more statistics than could properly be collected and analysed. Statistics were easier to produce than to use.

Mr. DUB said that it was dangerous to over-estimate the ratio of cost to tax revenue. States able to show a low ratio of collection costs to revenue were usually guilty of poor tax administration.

He would be interested to know whether Mr. Farrioletti regarded the chief aim of tax administration as being the collection of all the taxes due or the correctness of the tax payment, particularly in the case of over-payment.

/Mr. FARRIOLETTI

Mr. FARRIOLETTI said that failure by a tax administration to develop a reputation for correctness in its application of the tax laws induced non-compliance on the part of the taxpayer. The administration must be fair to the taxpayer. However, incorrect returns usually entailed an additional payment by the taxpayer rather than a refund by the tax administration.

The meeting rose at 5 p.m.

SUMMARY RECORD OF THE FOURTH MEETING
held at Buenos Aires, Argentina,
on Saturday, 14 October 1961, at 9.55 a.m.

Chairman: Mr. BARNES

CONTENTS:

Automatic data processing and tax administration:
the potentialities of ADP and factors involved in
its adoption

The CHAIRMAN invited Mr. Surrey to present his paper: "Automatic data processing and tax administration" (Document OAS/ECLA/IDB/7). He mentioned that a group from Canada and the United States, including Mr. Surrey, had met at the Harvard Law School in April 1961 for the specific purpose of conducting a preliminary discussion on the subject before the present meeting.

Mr. SURREY said that the great interest taken in the possibilities and significance of modern data processing machines for tax administration had led to the holding of the preliminary meeting referred to by the Chairman, in an attempt to assess the scope of the subject. The conclusions reached would be published in the next issue of the United States National Tax Journal and sent to all the Conference participants.

The success of present-day tax administrations depended on their ability to handle the increasing volume of paper work. The use of punch card and sorting equipment in some countries had failed to solve the problem completely. It should be realized that an entirely new technology of automatic data processing was being developed and was already in use in some private, commercial, business and government activities. The questions before the meeting today were the importance of the new technology for tax administration in the next decade, the potential benefits it would bring and the conditions that had to be present before those benefits could be obtained. He himself believed that its impact would be revolutionary and that its benefits would accrue to other spheres as well as tax administration.

The salient characteristics of ADP and electronic computers were their boundless capacity to store information and to perform integrated repetitive operations accurately and swiftly. The first important area in which it would be valuable was that of routine tax administration: the filing of returns, verification of figures and recording of payments. In countries where tax was self-assessed, the figures on
/the declaration

the declaration could be checked by computers; in other countries the computer could undertake the basic work of tax calculation.

Provided that individual consolidated accounts were set up for taxpayers, ADP would greatly assist in compiling all the requisite data for keeping such accounts up to date for each taxpayer. Billing for tax overdue would be facilitated by that system. Refunds would also be made easier - an important point to bear in mind in regard to countries where withholding of tax at source was common.

The second important field in which ADP could be useful was tax enforcement. It enabled the tax administration quickly to see which taxpayers had not filed their returns at all by checking against a master list. It also permitted those taxpayers who were delinquent in payment to be immediately identified, the amount of their liabilities ascertained and notifications printed to be sent back to the delinquent taxpayers and to the offices responsible for enforcement.

With regard to the more difficult aspects of non-compliance, such as those taxpayers who failed to disclose the full amount of their tax liabilities, ADP would enable collateral sources of information such as information on wages, interest and sales of property to be used from which the real amounts due could easily be ascertained. All Governments had such information at their disposal but could seldom draw upon it because of the vast volume of paper work involved in matching the information with the taxpayer's return. Since the computer permitted quick matching the problem in the future would probably be the selection of the relevant information rather than the mechanics of its use.

Another important aspect of enforcement was the selection of returns for auditing. ADP would help to classify returns for potential auditing in accordance with a large number of factors of selection, and could also provide returns for auditing on a random sample basis. One of the main tasks for the tax administration in the future would be to define the

/criteria on

criteria on the basis of which the electronic computers could classify returns. However, the computers themselves were useful in analyzing the data needed to develop these criteria.

One difficulty was that a tax administration might learn too much about delinquent taxpayers. A distinction had to be made between error and fraud and suitable adjudication procedures decided upon. Those problems were beginning to be studied in the United States.

The third major use of ADP lay in the provision of statistical data. Tax returns were one of the most important sources of information for any Government because of their wide coverage of useful data. It was essential that such information should be up to date, and for that purpose ADP would be invaluable, because of the speed with which it could assimilate and produce data. He referred to the point made by Mr. Musgrave in his paper (Document OAS/ECLA/LDB/5) that statistical and analytical techniques should be developed to make data from various countries useful on a comparative basis, and stressed the importance of such information for statisticians and economists.

Statistical data of the kind supplied by ADP would also be valuable for tax policy and legislation since, with the aid of imaginative research, they could be used to estimate the effects of a given legislative change and would thus help to determine future policy.

The data compiled by ADP should be made available by Governments for private economic research and for the use of private business activities such as business forecasting.

Among the other benefits of ADP would be an improvement in relations between the taxpayer and the tax administration. Compliance would be increased as the public would have greater confidence in the latter's efficiency and reliability. In addition, it would become possible to co-ordinate the administration of different types of taxes or the work of different tax jurisdictions.

/The remainder

The remainder of the paper dealt with the means of determining whether ADP could effectively be introduced into a particular country and the way in which the changover from conventional methods of paper processing should be made. Such a step naturally called for intensive organization and study beforehand, as well as a thorough analysis of prevailing practices to determine the exact extent of their usefulness.

In view of the enormous potential benefits of ADP and electronic computers for all types of taxes (such as income, excise, sales and property taxes), he would urge Latin American countries to adopt that system without necessarily passing through the intermediate stage of ordinary electro-mechanical equipment which lay between manual methods and ADP proper. What was needed was a realistic approach to the problem combined with an imaginative appreciation of the revolutionary changes that were beginning to take place in tax administration as a result of the availability of electronic computers.

He hoped that the participants would discuss the possibilities and problems of achieving that transition and the major obstacles in their way; the most important seemed to him to be the lack of trained systems analysis and programming personnel. He was convinced that in the modern world it was both possible and feasible to build up a competent tax administration through executive ability combined with the use of the best modern machines.

Mr. QUESADA said that he was no expert in the subject since he had only recently made his first acquaintance with an electronic computer; but it might be well to consider whether and how such equipment might be used in a small country. Costa Rica with a population of only just over a million, and only 25,000 registered taxpayers, was very differently situated from the United States, where such equipment was most widely used, and it seemed advisable to examine the economic possibilities of using an electronic system. The cost of the equipment,
/which according

which according to IBM estimates would amount to 60,000 dollars per small unit, would not be beyond the reach of a small country. However, the equipment's capacity might be excessive in relation to the country's needs. The difficulty might be met by using the equipment for government statistical work outside the tax field.

Moreover, it would be necessary to look into the advisability of installing such a system all at once, since many small countries did not even have electric machines. The question of modifying the manual system had been discussed recently in Costa Rica, and it was felt that it would be difficult to change over electronic computers without some prior experience with conventional equipment.

Mr. HERBERT said that his own special field was income tax, but he believed that his comments would also apply to other tax areas, since all involved data processing. To judge by the discussions of the previous two days, all participants were anxious to improve tax administration and increase the efficiency of tax collection. That involved an increasing amount of paper work, and the only solution was automatic data processing. A start should be made at once so as to acquire experience of electronic data processing equipment; it would then be found that knowledge and experience would increase much more quickly than expected.

He pointed out that the population of Canada was smaller than that of some South American countries. Manufacturers were now producing electronic equipment of a wide range as regards size and capacity, suitable for almost any unit. The equipment was becoming easier to use and maintain, and more reliable.

Before computers could be introduced, there must be interest on the part of the senior tax officials. Some of the younger officials might be released from their normal duties in order to attend courses provided by the manufacturers or by a university.

A number of Latin American countries might combine in buying a computer, if they felt misgivings about buying one for a single country. He again underlined the increased accuracy, speed and economy with which the necessary work could be done by electronic processing equipment.

The meeting was suspended at 11 a.m. and resumed at 11.30 a.m.

Mr. VELLARDE stated that his only experience in the use of electronic computers had been acquired in the Netherlands in connexion with input-output calculations, although the equipment no doubt operated in the same way for taxes. While the advantages of the system were infinite, some small problems should perhaps be mentioned. In the first place, use of such equipment presupposed a highly efficient tax organization. The manufacturers allowed for a waiting-period of two years and even suggested the type of organization best suited to the equipment.

In small countries such as those of Central America, the cost might be too high unless there was a sufficient volume of work. In such a case it would be advisable to centralize the work of all government agencies such as the Comptroller's Office, the Ministry of Finance, the Tax Administration, etc., so as to take full advantage of the equipment.

Finally, it should be stressed that the criteria to be applied by the individuals concerned should be carefully considered since the machines could not yet think.

Mr. OURO PRETO said he did not doubt the usefulness of automatic processing. Brazil already had electronic equipment installed at the Brazilian Statistical and Geographical Institute, in some universities and private firms.

The first obstacle was cost: the Institute's computers had cost 3.5 million dollars and the equipment was not fully usable for tax
/purposes, since

purposes, since it was acquired for use in census work. A solution to the problem would be to consider the possibility of hiring the equipment or extending the terms of payment. Another difficulty was the possibility it created of technological unemployment. In order to avoid serious difficulties of that kind, the new techniques should be introduced gradually.

Mr. HERBERT replied that electronic equipment did in fact cut out some operations. On the other hand, the increased data available made it necessary for the tax authorities to assign more staff to other work, such as controlling tax evasion. He believed that the number of staff needed was likely to be more rather than less. There was bound to be some effect on the staff, and there would have to be some retraining, transfer and perhaps early retirement of those who for reasons of age were not sufficiently flexible to adapt themselves. The displacement would not be as serious as was feared, if some officials could be transferred to the enforcement service, and the net effect might even be beneficial.

Mr. BRAVO stated that the tax administration in Colombia was equipped with the conventional electro-mechanical type of equipment, but that, owing to the increased number of taxpayers, the possibility of acquiring more versatile and efficient equipment had been envisaged. One million returns of income data and 500,000 tax accounts were processed annually. Until the previous year, the processing took one year, which caused concern on the part of the Ministry of Finance and misgivings among the taxpayers.

The new equipment would not be used exclusively by the Tax Division, but also by all the departments of the Ministry of Finance for the payment of civil servants, budget operations, customs statistics, etc. In the Tax Division itself, the computer would be used for processing income tax and supplementary tax data; for the preparation of taxpayers' current accounts (although the kardex would not be suppressed); for tax investigation (cross-checking

/of information

of information from different sources), and for the identification of taxpayers in arrears.

He did not consider it advisable to eliminate the use of the kardex system for current accounts as it was useful in issuing tax clearance certificates, which were frequently required for carrying out various formalities, apart from their persuasive effect on the taxpayer.

It must also be decided whether it was advisable to buy or hire equipment; hiring had its advantages because the machines soon become obsolete.

Mr. RAPOPORT said that the subject was extremely important for Argentina and for all the Latin American countries. Development plans would broaden the tax base throughout Latin America and many who were not as yet taxpayers would be added to the rolls. Hence the tax administration should be prepared to meet a variety of new tasks.

Argentina, with a population of 20 million, had one million registered taxpayers and an estimated 500,000 whose tax was fully withheld at source and who were therefore not registered. Each income tax return involved dozens of operations - apart from processing monthly, quarterly, half-yearly and yearly payments, the information supplied by withholding agents and employers, etc. - which it was impossible to handle by the conventional systems.

In Argentina, the conventional system of punched cards and electric tabulators had been installed in 1933 along with the establishment of the income tax. If it had been possible then to set the system in motion with very little experience, there was no reason why in 1961 and subsequent years, a process in keeping with the times could not be adopted, especially if the resources of international technical assistance were available. Moreover, in Latin America up-to-date machinery was being introduced in industry, and a corresponding programme of electronic computers might also be envisaged. But first of all, technicians should be trained and programmes studied with

/a view

a view to adapting them to each particular environment, and they should then be extended to different government agencies which would utilize them simultaneously.

The problem of possible unemployment was more apparent than real. The men who were displaced by machines would be trained for more important tasks in tax control, where there would be plenty of scope.

Mr. DAVALOS pointed out that many countries did not take full advantage of the conventional equipment they had, yet were already thinking of introducing electronic equipment. There was something incongruous in the combination of a slow and antiquated tax administration with staggeringly rapid and efficacious data-processing equipment. He was therefore inclined to advocate conventional equipment for countries like Ecuador which had fewer than 100,000 taxpayers, as was the case with Ecuador.

Ecuador had 50,000 taxpayers and scanty resources. Operations were carried out with conventional equipment, which was used by all the departments of the Ministry of Finance, although owing to inter-ministry difficulties the other departments were unable to avail themselves of it. The discovery of cases of evasion alone had brought in enough revenue to pay for the equipment twenty times over.

The chief obstacle to the introduction of new systems of operation was the conservative attitude of an administration which was reluctant to abandon its familiar routine. The legislation in force would also have to be revised, as under the existing laws tape recordings did not constitute valid legal documents. There were statutory regulations, for example, governing the notification of taxpayers that payment was due, and demand notices produced by electronic equipment would not suffice.

It should not be forgotten that the innovations under discussion might affect other government departments. The introduction of radical reforms could not be left to the discretion of the tax department alone, and the necessary measures would have to be taken to promote action on

/the part

the part of all branches of the Government, from the Ministry of Education (civic education of the taxpayer) to the statistical offices (co-ordination of data).

Mr. CABEZAS recalled that tax administration had been considerably neglected in Bolivia until a few years ago, since the only taxes of importance were those on tin. When the introduction of electric machines had been first suggested, there had been a great deal of scepticism as to their merits. To begin with, a small unit had been hired for 1,400 dollars a month; it had been used for the preparation of taxpayer rolls and the processing of payments, as well as for the payment of salaries to civil servants in La Paz. It had soon been found that the equipment had rendered such excellent services that a larger one had had to be hired, and it was now proposed to hire one at a cost of 3,650 dollars per month.

Mr. WIESE felt that some reluctance to change over to the use of electronic equipment was inevitable, although cases of over-enthusiasm were also to be found. The decision to adopt such equipment should be based on proper administrative organization. In his view, the most valuable recommendation contained in Mr. Surrey's paper referred to the evaluation and choice of equipment. The level of administration varied from one country to another depending on circumstances, so that whereas in one country coordination might be such as to enable it to shift immediately to the electronic system, others might have to proceed with caution. That was the case in Bolivia.

Venezuela had great hopes for the use of the electronic computer for the work of tax control, national accounting, treasury operations, etc. However, there was a tendency to overburden the electronic equipment with work which might be more cheaply done by other methods. For instance, savings could be made if final returns were filed by the taxpayer.

Mr. PIEDRABUENA said that Chile used conventional IBM equipment but proposed to install an IBM Model 1401 electro-mechanical unit at an annual rental of 32,000 dollars. He would like to know whether, if it were decided to install electronic equipment, it would be /absolutely necessary

absolutely necessary to identify taxpayers by a single number. He also asked what the procedure would be in case of a taxpayer's death or of a change in the turnover of a business, and whether it was advisable to keep the conventional machinery to supplement the electronic equipment. If such equipment were installed throughout Latin America, it might be possible to enter into agreements to exchange information which would be very useful in coping with tax evasion.

Mr. HARDING said that it would be possible to operate electronic equipment without adopting a system of permanent numbering; it had been done in the United States. But if a master roll of taxpayers was used, it was essential to have such a system. He agreed that the death of a taxpayer or a change of business activity posed continual problems and that the only remedy was to keep a master roll of up-to-date information.

With respect to the joint use of conventional and electronic methods, he explained that in the United States information on taxpayers was first put on punch cards and then transferred to a magnetic tape. The tape could thereafter be used without the cards. The machine required for the card to tape conversion was the small 1401 computer.

Mr. SALAZAR asked whether the best time for programming was before the equipment was purchased or in the interval between the placing of the order and the receipt of the machinery.

Mr. HERBERT said that no programming should be undertaken until it had been decided what type of machine was to be used; but a great deal of important system analysis and planning was required before a decision could be taken in that respect.

Mr. DUE referred to a point made by several speakers, namely that if a magnetic tape system were adopted there would be no visible records to show taxpayers or for auditing. It would however be possible to maintain a kardex file with separate cards for each taxpayer, which could be kept up to date by ADP.

/Mr. HERBERT

Mr. HERBERT considered the point raised to reflect a psychological stumbling-block that had to be surmounted. It was necessary to become accustomed to use electronic computers as a source of information instead of written records.

Mr. LOPEZ explained in reply to Mr. Piedrabuena's question that in Argentina, in the event of the death of a taxpayer, his number was temporarily assigned to the probate court and that subsequently, when the estate was divided, the number of the deceased taxpayer was assigned to one of his heirs. With respect to the elimination of paper work, he said that under Argentine laws, if judicial proceedings, had to be instituted for the collection of tax, the original final return had to be produced. Consequently, it would be impossible to use the tape recordings as legal evidence and hence to institute judicial proceedings against the delinquent. The final returns would therefore have to be kept, and the paper work could not be eliminated.

Mr. GNAZZO expressed the opinion that the automatic processing of data had come into its own mainly in connection with income tax, which had not existed in Uruguay until 1960. The offices formerly dealing with internal revenue (taxes on consumption), excess profit taxes and direct taxes had, at the time of speaking, been amalgamated in a single Inland Revenue Administration, which implied the inauguration of a new tax era in which the findings of the Conference would be of the greatest interest.

Mr. RUAX said that tax administration ought not to be alarmed by the high cost of electronic equipment, since it had been shown to be wholly or partly amortized by the increase in the revenue collected. Moreover, it should be borne in mind that such equipment promoted fairness in taxation, helped to curb evasion and might even result in a reduction of rates by virtue of the greater efficacy of tax collection.

Mr. SURREY remarked that he did not envisage ADP as confined to taxes of the income tax type only. It could be used for all types of taxes - income, sales, property, etc. In his view, conventional methods
/of tax

of tax administration might appear to work satisfactorily because the volume of paper work had not yet become overwhelming, but the growth of population and the broadening of the tax base would make the tax administrator's task in the next decade virtually impossible without the adoption of more modern methods.

Some speakers had expressed doubts as to whether methods of tax administration should jump any stage in their development. Since electronic computers had already been devised, he did not believe that it was necessary to pass through all the intermediate stages of earlier methods and machines.

With respect to factors that might be regarded as limiting the adoption of ADP, cost did not seem to be a basic obstacle. The chief need was for personnel trained in systems analysis and in programming, and sound preliminary organization before the introduction of modern machines. It was clear that considerable technical assistance might be needed in some countries to facilitate the changeover to electronic computers in the field of taxation during the next decade.

The meeting rose at 1.25 p.m.

SUMMARY RECORD OF THE FIFTH MEETING
held at Buenos Aires, Argentina
on Saturday, 14 October 1961, at 3.20 p.m.

Chairman: Mr. BARNES

CONTENTS:

Automatic data processing and tax administration
(continued)
Trends in management technique

AUTOMATIC DATA PROCESSING AND TAX ADMINISTRATION (continued)

Mr. BECERRA asked what volume of work justified the use of electronic equipment in tax administration.

Mr. DUE said that it would depend on the type of returns the equipment would have to process. Some tax returns were filed monthly, others only annually. The simplest form of electronic equipment, used for most tax administration work, involved punch cards rather than tape. That system was best for the processing of not more than 10,000 accounts. Tape would be more economical where there were at least 50,000 accounts. It was used primarily for sales tax work.

Mr. FARRIOLETTI observed that some participants seemed to feel that under the automatic data processing system the legal tax document, such as the tax return, could be dispensed with after the information it contained had been transferred to a punch card or tape. That was not the case. The return would have to be kept as evidence if legal proceedings had to be instituted against a taxpayer. The advantage of the tape over the punch card was that tape could be processed through the computer more rapidly and provided visual information readily available.

Mr. LACHMANN said that the most important consideration with respect to the use of electronic equipment for tax administration was obviously its cost, both for the hiring or purchase of new equipment and the replacement of obsolete machines. Two points had to be considered before a decision was taken: first, the fact that a modern tax administration system would not function properly without some electronic equipment; and second, the possibility of use by the tax administration of electronic equipment already available in other government offices or university research centres.

The time had come for a comprehensive study of the need for electronic equipment in tax administration and other government activities and the extent to which its use was feasible. In that connexion, under its Technical Assistance Programme, the United Nations had made available to Governments, at

Governments, at their request, experts to assist them in carrying out such a study. Interested Governments should set up small groups of qualified personnel to work with the experts both in the study and in the preparation of a training programme.

Mr. CABEZAS said that in Bolivia two conventional electro-mechanical units were used by the Ministry of Finance - one for the Department of Statistics and the other for the Revenue and Expenditure Department and the Budget Department. While the cost of hiring those units was greater than that of an electronic machine, lack of electric power precluded the use of electronic equipment. The latter operated on 50 cycles as against the 40 cycles available at La Paz. Electronic equipment was thus not necessarily more expensive for the work it could do.

Mr. REIG felt that the high cost of electronic machines would be offset by their effectiveness. Meetings such as the present Conference, in making recommendations which might affect the legal and constitutional provisions in force in the various countries concerned, should clearly stipulate the area to which the recommendations were directed, e.g. constitutional, legal or practical administration, in order to avoid unfair criticism.

TRENDS IN MANAGEMENT TECHNIQUE

Mr. HABERSTROH, summing up his paper (document OAS/ECLA/IDB/8), began by referring to the problems arising in connexion with tax administration in the Latin American countries, which he thought were not very different from those in more developed countries like Canada and the United States. They could be reduced to three major categories: (a) Those relating to the permanence of the organization and the security of tenure of personnel; (b) Those of effective coordination and unity; and (c) Those of adaptation to environmental changes.

He went on to allude to those functions of the administrator and manager which could not be delegated, and which comprised "elaboration of purpose", "negotiation of participation" and "maintenance of communication". With respect to the elaboration of purpose, he thought the

/objectives proposed

objectives proposed in Mr. Farrioletti's paper (document OAS/ECLA/IDB/6) failed to cover the whole field, and, in the last analysis, seemed to be confined to the measurement of evasion. While recognizing that there might be others, he cited a number of objectives for the tax administration, such as basing tax collection on the relation of revenue to the country's economic programmes, treating all taxpayers fairly; inculcating respect for the law in the general public; carrying out specific regulatory projects developing background information for its future evaluation by Congress and by the public as a whole; carrying out basic research to increase knowledge of tax administration, etc. All the purposes mentioned could be elaborated in specific programmes. "Maintenance of communication" he considered essential above all, to task achievement. He stressed the importance of the administrator's ability to conceptualize the whole field of the organization's functioning in order to inter-relate the parts and acquaint himself with the personal situation of his subordinates. He did not know how much of what had been done in that direction in the United States might have percolated through to Latin America, especially in respect to profit-sharing plans, which could not be introduced in the tax field, but which might be comparable to the incentive funds existing in some Latin American countries. All such matters should fall within the competence of the chief administrator, whose activities and qualifications should be focused not only on the task but also on his subordinates as human beings and on their personal interests, since otherwise the latter would not identify themselves wholeheartedly with their work.

Problems of adaptation were assuming steadily increasing importance, as any interruption of administrative continuity militated against the accumulation of experience. It would be desirable for administration or management to be permanent and not to specialize in any particular function, and for political authority to remain an outside force to which management adapted itself. Flexibility, too, was of vital importance; it would allow of organization by projects and correct manipulation of the over-all structure of the organization. A readiness to accept change and innovation would thus be fostered.

/Mr. PIEDRABUENA

Mr. PIEDRABUENA commenting on Mr. Haberstroh's paper and his remarks to the meeting, said he did not believe that in most of the Latin American countries it was difficult to organize tax administration on progressive lines because the posts were hereditary or dependent upon considerations of social position, wealth or other privileges. Impersonal authority, the objectivity characteristic of the modern enterprise, and security of tenure were, as a matter of fact, to be observed with increasing frequency in the countries of the region. In Chile, for example, although the Director of the Internal Revenue Service held his post directly from the President of the Republic, he was chosen entirely upon his merits, exactly as in the United States, while the other officials of the department were permanent career staff who could not be arbitrarily removed from office. It should not be forgotten that tax administrations faithfully reflected the existing social situation, and could not be expected to evolve faster than other institutions or fields of activity. On the other hand, they should not lag behind either as had occurred in practice in some cases - even where their own development was not at fault - in consequence of the progress achieved by the taxpayers themselves in the methods they used, including those for legal or illegal tax evasion. Reform and modernization of the tax administration were therefore indispensable if the reform of the tax system was to be practicable.

Undeniable, when the influence of authoritarian values declined, the efficiency of the organization was seriously weakened, especially in the case of services in which the personal element was involved. The highest degree of administrative efficiency, therefore, would be achieved only if and when it was possible to appoint and promote the official responsible for the tax organization solely on his personal ability and merits. In support of the principle of impersonal authority, he quoted the opinion of a Chilean statesman, Diego Portales, who as early as 1830 regarded the sustained maturity of political institutions as dependent upon the maintenance of "the mainspring of the machine".

/In Latin

In Latin America, leadership in administrative organization would serve to revivify and reform existing structures. Moreover, efficiency should be related to the instrument of "shared understanding" called by Mr. Haberstroh the "task model". In that context, the importance of maintaining internal communication, formal or informal, in the shape of handbooks, detailed reports, etc. was clear. In Chile there was a marked tendency to communication of the latter type; handbooks on official auditing, statistics, turnover tax, etc., already existed, as well as guides for teachers and pupils at the Internal Revenue Service Training School. Nevertheless, endeavours should be made to improve upon those various forms of communication and promotion of understanding, particularly of the informal type, in order to arrive at the goal of "shared purpose".

Equally necessary was co-ordination with a view to forming groups ("task-forces") on the basis of similar community of understanding and purpose, so as to simplify the work of the chief administrator and prevent undesirable duplication. Classification and evaluation should not be confined to posts as such, but should be extended to cover the permanent assessment of performance, since that was the basis for fair and objective staff reports which enabled promotion to be determined by merit.

He was in favour of legal and even constitutional reforms which would permit not only the delegation and sub-delegation of authority but also the decentralization of functions, putting an end to the concentration of authority in the upper ranks of the hierarchy. Decentralization would rid the delegation process of its discretionary character, and would open up promising avenues - not, however, altogether free from hazards - in those countries which were not federally organized.

Alluding to the defects and disequilibria commonly observable both in the field of planning and implementation and in systems of organization and external communication, he recognized that the lack of administrative flexibility reflected the degree to which authority in the services concerned was personal and concentrated. One of the most serious administrative problems in Latin America was, in his opinion, the lack of internal controls,

/especially in

especially in the case of those whose task it was to keep a check on the taxpayers. In that connexion, he suggested that the authorities who issued instructions or made the pertinent recommendations should not be the same as those concerned with carrying out the instructions in question, and also that line supervision should be exercised up to the heads of the inspection divisions, the only officials who should be responsible for individual supervision. Similarly, he thought it desirable that a national control and security office should be organized, and that its supervisory functions should be specified clearly and in detail.

The CHAIRMAN said that one step taken in collecting data for the present Conference had been a request to Latin American Governments to submit a diagram showing how the tax administration was organized within each Ministry of Finance. Replies had been received from Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Uruguay. The data were now being compiled in a form which would show at a glance the wide differences between the tax administration structure from country to country.

Mr. ALEGRE agreed that political changes often involved replacing the staff at all levels of the public service, which meant that the experience they had acquired was wasted. Consequently he suggested, as a means of avoiding the difficulty, that as long as there was no security of tenure for the staff, the power to take administrative measures should be governed, to some extent at least, by regulation, and that discretionary authority should as far as possible be abolished. That would ensure uniformity and the distribution of the tax burden by administrative action. With respect to the need for publicity to keep the taxpayers fully informed, it should also cover information, however simple, as to the fiscal and non-fiscal purposes of each tax. That could be done without prejudice to the inherent indivisibility of the tax revenue.

Mr. MOISES-BEATRIZ said he would like to hear the views of Mr. Haberstroh and Mr. Piedrabuena on problems relating to the leadership /qualities of

qualities of heads of departments, and to their relations with the groups concerned. He considered that the leader could not exert pressure on the group without ceasing to represent its moral values. Moreover the fact that heads of departments belonged to a higher group in the executive hierarchy might result in a conflict of interests, since the aims at the two different levels were not always identical.

Mr. HABERSTROH said that a conflict of interest might arise not only between units in an internal organization but also between one department and another. With regard to a conflict between the head of a group and his subordinates, very often the executive group of which the group leader was usually a member failed to realize that the conflict existed, simply because it did not ascertain the views of the subordinates concerned. The group leader who thought in terms of work output alone failed in the human task of familiarizing himself with the problems of his employees. The answer to the problem was simple. Employees must be able to discuss their problems, personal or otherwise, with an official, designated for that purpose.

Mr. PIEDRABUENA said that a group leader was either prepared to co-operate with his subordinates in solving their problems, or was unaware of those problems, or was opposed to co-operation with his employees. In the first case, the problems were solved, in the second they remained unsolved and in the third tension was aggravated.

Mr. WIESE said that one of the vital aspects of the development of tax administration was the improvement of management skills. Due emphasis should be placed on establishing advisory and research services at the highest levels of the tax administration, and putting them in the charge of officials who were not taken up with routine work. Such measures would make the administration more active in applying the law, and would redound to the benefit of efficiency among the senior officials. One weakness was the lack of any lateral control, which should not be superimposed on line supervision, but should take the form of an inspection and information service to keep heads of departments informed of what was going on in their particular offices.

/Mr. LOPEZ

Mr. LOPEZ thought that the problem of the security of tenure or permanence of officials - especially of those at the highest levels - was essentially a political problem. By way of corroboration, he adduced Argentina's experience in respect of the Internal Revenue Administration over a number of years. In his opinion, both the evils noted in that respect and those to which other participants had referred would be remedied as education and general political training in the Latin American countries improved.

Mr. REIG said that in his view, the sociological and anthropological problems currently being studied in connexion with the scientific training of management personnel applied equally to public administration and, more specifically, to tax administration. The place given to the tax services within the public administration was important. These services should be granted administrative autonomy because, in countries where political changes were frequent, the independence required for administrative action depended upon that autonomy. He agreed with Mr. Piedrabuena on the advisability of separating, within the over-all plan, the functions of ordinary executive leadership from those of investigation, advisory functions and technical studies. It should be borne in mind that both the delegation and sub-delegation of authority required that those who received the authority should be properly qualified. As far as co-ordination was concerned, an internal appeals unit should be set up which, by means of a simple procedure, would lay down unified criteria and provide a sort of administrative jurisprudence. Neither the unit nor its decisions would be related to tax courts in any way nor would they affect the competence of those courts,

Mr. LOPEZ BARONA said that in Honduras the problem of internal disputes in government offices had been solved by the practice of asking the employee to select those of his colleagues with whom he would particularly like to work. Each group elected its own leaders who, in turn, chose the head of the executive group to which they belonged. The procedure had proved to be

/most successful

most successful and, with respect to tax administration, had resulted in a 60 per cent increase in tax collections.

Mr. Haberstroh seemed to be of the opinion that management techniques used in private enterprise should be applied to government offices. He himself did not believe that all the techniques used in private firms could be profitably applied to government departments.

He hoped that the Conference would confine itself to discussing tax administration proper and not become involved in questions of tax policy, to which some speakers had referred.

He had been gratified to note, from the statements made at the Conference, that tax administration was improving in Latin America.

Mr. FERNANDEZ PROVOSTE said that the present Conference confirmed the importance of tax administration. The tax reforms agreed to at the Punta del Este meeting could not be carried out unless administrative problems were solved in the countries concerned. It was dangerous to carry out a reform without a qualified administrative staff to apply it in practice. In Chile the question of a tax reform was not discussed until a decision had been reached on tax administration problems.

The meeting rose at 5.45 p.m.

SUMMARY RECORD OF THE SIXTH MEETING
held at Buenos Aires, Argentina
on Monday, 16 October 1961, at 10 a.m.

Chairman: Mr. BARNES

CONTENTS:

Trends in management technique (continued)
Accounting, auditing and knowledge of business
practices in relation to tax administration

TRENDS IN MANAGEMENT TECHNIQUE (continued)

The CHAIRMAN invited Mr. Rapoport to make some comments on the topic: "Trends in Management Technique", which had been discussed at the previous meeting.

Mr. RAPOPORT said that it was of vital importance to the tax agencies that the organization and staff should be on a permanent basis. There were various views as to the heads of tax bodies: some believed that they should be changed from time to time, since they usually incurred criticism and ill-feeling from the taxpayers; but on the other hand the replacement of the individual holding the post should not mean a change in policy.

In Argentina the Internal Revenue Administration was advised by an Executive Board, whose members were not part of the civil service and were not paid by the Government. The Board had full powers to make appointments and promotions and take disciplinary action, and to establish the policy governing expenditure, budgeting and credits. Steps were being taken to reorganize the tax services in Argentina on a functional basis, by decentralizing the offices that dealt with taxpayers.

He considered that the costs of the services should be closely supervised and administered with a view to maintaining the proper balance.

ACCOUNTING, AUDITING AND KNOWLEDGE OF BUSINESS PRACTICES IN RELATION TO TAX ADMINISTRATION

The CHAIRMAN said that the discussion which was about to begin would show how public accountancy as a profession could bridge the gap between the tax administration and the taxpayers or taxpaying entity, a problem that had long defied solution. He invited Mr. Taylor to present his paper: "Accountings, Auditing and Knowledge of Business Practices" (Document OAS/ECLA/IDB/1).

Mr. TAYLOR expressed his concern over the lack of accounting rules or principles formulated by public accountants in most South American countries. It was unfortunate that many of the accounting rules applied were governed

/by tax

by tax laws which were often far from conforming to what might be called good business practice, particularly in regard to expenditure and reserve funds. The application of such rules was frequently detrimental to the interests of business firms.

Auditing had made even less progress though it was admittedly well-developed in Argentina and Mexico. The latter country had based its system on United States standards. In Argentina, auditing had made great strides after the stock exchange was reorganized and firms whose shares were quoted on the exchange were required to submit financial reports certified by public accountants. But it had not yet been made obligatory for the statutory auditor (síndico) to be a public accountant, in spite of his heavy responsibilities.

The current problem of accounting in relation to tax administration in a number of countries concerned the corporation in particular. Independent auditors were rarely appointed by such bodies, since their accounts were usually kept in accordance with the interests of the owners and the probable incidence of the tax burden. He therefore stressed the point he had made in his paper that the work of the tax administration would be facilitated if taxpayers and accountants could be induced to provide fuller information on the accounting procedure applied to specific items and on any change that might be made in the basic principles of accounting adopted.

He was concerned that public accountancy should become an important and distinguished profession in Latin America. Top-ranking officials in the different Ministries of Finance and lawyers who had specialized in tax questions could greatly contribute to the achievement of that aim. The development of public accountancy would benefit the tax administration in two ways. More efficient preparation of accounts and tax returns would make the task of the tax inspectors easier while the establishment of recognized accounting principles would enable accountants to foresee what problems - e.g. currency devaluation - were likely to arise and to collaborate with the tax authorities in taking the necessary measures to deal with them.

/Mr. NICHTAWITZ

Mr. NICHTAWITZ said that although little need be added to what was contained in the documentation submitted, he would like to underline certain points. First, the tax authorities tended to concentrate too much on going over the accounts of large firms, despite the fact that such accounts were usually reliable, and neglected inspection of smaller enterprises, which thus gained the impression that they were not being controlled. Such an approach might not be very practical if resources were limited. It might pay the authorities better to devote their time to the points most likely to lead to irregularities, such as cost prices and transactions between parent companies and their subsidiaries. Sometimes the inspection of the tax authorities was confined to queried items of small amounts, such as traffic fines or gifts, which cost more to collect than the tax revenue they yielded.

He emphasized the importance of extending the use of accounting records. The greater the reliability and responsible character of the accountants, the more confidence the tax authorities would have in the records, and they thus had a direct interest in raising the status of the profession. There were various ways of doing that, such as the recruitment of accountancy instructors, the establishment of stricter requirements for granting the title of accountant and - though it was less important - the enactment of legislation to regulate the exercise of the profession, especially in the tax field. Moreover penalties should be established for fraudulent accounting. He had been informed that in Chile the regulations provided a means of penalizing the accountant that enabled him to transfer the responsibility to his client. He would be interested to learn how that arrangement worked.

Mr. BARNES invited Mr. Balls to present his comments (Document OAS/ECLA/IDB/1/Add.2) on the paper by Mr. Taylor.

Mr. BALLS said that whereas Mr. Taylor had dealt with the subject from the standpoint of a practising accountant he would adopt the standpoint of a tax administrator. The prerequisite for consideration

/of the

of the subject was an understanding of the five basic principles of taxation: 1. taxes should be productive without restricting economic growth; 2. the tax burden should be spread as fairly as possible; 3. taxes should be equitable and of universal application; 4. tax laws should be clear to those who must apply them and those subject to them; 5. taxes should be easy and economical to administer.

The purpose of the tax administrator was threefold: to devise taxes in conformity with the foregoing principles that would raise sufficient revenue to meet the needs of government; to establish a simple and economical basis for assessment and collection; and to develop auditing and other procedures to ensure full compliance and effective enforcement. For the achievement of any one of these aims, a comprehensive knowledge of accounting, auditing and business practices was necessary.

Tax administrators should be fully familiar with the current use of such practices and procedures in the community with a view to devising procedures that would be acceptable; they should also ensure that their own accounting, auditing and administrative machinery was as efficient as that used by the business community. In order to be effective, government procedures should serve as great a variety of purposes as those used by business firms, and equip the tax administration to account to the legislature for the collection of public moneys. The accounts should also be so designed as to provide the Government with regular and up-to-date information for economic analysis and planning.

Accounting was not an exact science. Although its rules could be codified, it had to be flexible to meet the variety of purposes it was designed to serve. But the multiplicity of interests involved made it impossible for a single audited financial statement to protect them all equally. It should therefore be remembered that the auditor's first duty was to his clients - shareholders or taxpayers - and he had an obligation to state their tax liabilities at the lowest figure consistent with a strict interpretation of the law. Consequently, the interests of the

/taxpayer and

taxpayer and his auditor and those of the tax service were bound to conflict at times, but every effort should be made to establish a high degree of co-operation and confidence between the two sides.

Taxpayers and tax administrators should also be able to obtain expert advice whenever necessary and in that respect the existence of a body of professional public accountants endowed with the requisite knowledge and experience was invaluable. One of the most difficult problems for the tax administrator was to decide at what point in time a tax could best be collected. That could not be determined without a thorough knowledge of the business and accounting practices and procedures involved.

He agreed with Mr. Taylor that the principal problem for a tax administration in assessing tax was the measurement of corporate income, and in that respect, a closer approximation should be made between taxable income and income reported to shareholders.

The prime problem in regard to income tax was the definition of income; that was obviously not a matter for accountants alone, and tax laws had therefore been designed to ensure that the accounting concept of income was adjusted to the needs of equity and other tax considerations.

Mr. LOPEZ said that there was a difference between the degree of acceptance of auditing methods in Argentina and in Brazil, and there were no doubt equally great differences in other countries. There were many associations of public accountants in Brazil, Chile, Mexico, and Venezuela and other Latin American countries, consisting of United States firms operating internationally which worked with local associations. That indicated that in those countries the level of professional knowledge, standards of conduct and responsibility were equal to those found in the United States and in the United Kingdom.

However, the extension of the functions of public accountants was somewhat hampered in those countries by certain obstacles to normal operation. Apart from those mentioned in the comments on Mr. Taylor's paper, there were many others, related to tax incentives and to the fact that United
/States enterprises

States enterprises were highly "tax-conscious". Thus when American enterprises came to work in Argentina, the tax incentives granted there resulted in the taxes not collected by the exchequer flowing into the coffers of the United States Treasury. In other words, if the income of the Argentine subsidiary companies paid at the rate of 38 per cent the parent company made up the difference of 14 per cent to provide the 52 per cent represented by the United States tax. Such an outflow of funds should be avoided in any rational international co-operation plan.

The taxpayer always put up a good fight to defend his income, both in Latin America and in the United States, the difference being that in the United States the Congress would not think of foregoing its privilege of voting expenditure and establishing taxes yearly, whereas in many Latin American countries those powers were in the hands of an executive which at times acted arbitrarily. Thus, for example, a programme of industrial mechanization could be halted in its tracks by a decree prohibiting the importation of machinery. Obviously such obstacles were overcome by surreptitious means, and there was a similar temptation to cheat the Treasury when taxes were so high as to be excessive. Auditors would certify everything that could be "formally" justified, but would refrain from qualification, since they were neither judges nor assessors, and moreover they were often ignorant of the real state of affairs.

All such difficulties were obviously due to a faulty tax policy which was at variance with equity or was damaging to the economy. The power to solve the problem lay with the public when it elected its rulers, and the problem should be put to the public. The position was not that the public could not furnish a solution, but that it did not know what the problems were.

The meeting was suspended at 11.15 a.m. and resumed at 11.45 a.m.

Mr. DARLON RODAS

Mr. DARDON RODAS said that while accounting techniques were particularly important in the administration of taxes on corporations, they were also essential because of the fact that such bodies absorbed much private capital. In Guatemala appropriate legislation laid down the form in which corporations should prepare their balance sheets.

There had been some controversy in Guatemala as to the functions of public and private accountants, but the former were steadily gaining ground.

Mr. FARRIOLETTI said he would like to have information on accounting problems and practices in Latin America in relation to tax administration, in order to compare them with what he knew of the profession of chartered accountants in Canada, the United Kingdom and the United States and the views of the tax administration there.

He explained that as a result of the historical development of the tax administration in the United States, the interests of taxpayers often conflicted with those of the Government. As Mr. Balls had pointed out, lawyers and public accountants were in duty bound to defend their clients by setting their tax liabilities at the lowest possible figure compatible with tax legislation. The establishment of a close and friendly relationship between the taxpayer and the administration through the public accountant would, however, do much to cope with the difficulties.

It was common practice in the United States for large corporations to have an accountant from the Internal Revenue Service working permanently on their tax problems and presenting the views of the Service as to the most acceptable solutions.

Mr. TORRES AHUMADA said that the accountants of America were united in large representative organizations, and had already held four inter-American congresses on their professional problems. The conclusions reached by such congresses could constitute valuable material for the OAS/ECLA/IDB Tax Programme. It might also be very useful to suggest to the committee organizing the next conference of accountants, to be held in New York in 1962, that the subject in question should be debated under

/some such

some such heading as "The accounting profession, accounting standards and commercial practices in relation to tax administration". It was important that those ideas should not be dissipated or forgotten.

In Chile accounting standards were set forth in the commercial and tax codes. Firms could use whatever system best suited them, provided that it clearly reflected the state of their business and that the system was not changed without prior authorization from the Internal Revenue Administration. That body could penalize an accountant if it was shown that he had falsified the facts, but he was held blameless if the statement of accounts was accompanied by a statement by the client testifying that the information supplied was reliable. Professional accountants were associated in a college of accountants, and relations between the professional accountants and the public authorities were excellent. The right to practise was granted by the State, and it was also required that an accountant be inscribed in the register of accountants. The title of accountant was required to enter the Internal Revenue Administration.

Mr. CABEZAS gave an account of the functions of the auditing department established four years previously in Bolivia, and of the results achieved. The department had a skilled staff, not subject to any political influence, and it gave highly satisfactory results, not only because it had improved compliance with the tax obligation, but also because efforts had been made to improve the exercise of the accountancy profession through advanced training courses and penalties for those who failed to produce proper accounts. As a result of that activity gaps and shortcomings in the law had been discovered, and they would be remedied in a new tax code.

The auditing work had given rise to so many refunds, additional charges, etc., that it had been necessary to modify the previous system of written administrative decisions, and instead a system of administrative hearings had been introduced that enabled disputes between the taxpayer and the authorities to be resolved more or less immediately.

/Mr. BRAVO

Mr. BRAVO explained that in Colombia as in Chile, accountancy standards were set forth in the Commercial Code. Also, in the case of corporations, there was a controlling agency responsible for defending the interests of the members. That agency had been accumulating experience on the way in which accounts should be presented, and had drawn up rules to distinguish between income from operations and income from capital.

In Colombia commercial and taxation practices were fairly similar, since the tax legislation had established very flexible principles into which any technical advances in accounting could easily be incorporated. The State was also eager to encourage the profession of public accountant. Thus only a qualified public accountant could become a tax inspector, certify entries in accounts and discharge certain other functions. Accountants who failed to fulfil their obligations were subject to penalties of suspension of their right to exercise their profession.

Mr. RISUENO said that the development of norms governing the accountancy profession was following a parallel course in all the Latin American countries. There was a greater realization of the importance of the accountant, and an increase in his influence in economic affairs and his co-operation with lawyers. His participation should constitute a guarantee of reliability for any tax authority. He agreed that there should be penalties for those who certified a fraudulent balance sheet, and thought that in addition there might be a fine for tax revenue not collected through the accountant's negligence. Referring to the Chilean practice of absolving the accountant of his responsibility by means of a certificate signed by the taxpayer, he took it that that would not apply in cases of negligence by the accountant. It might be useful to devise some method of consultation in the abstract, in which the parties concerned remained anonymous.

It would be highly desirable to require that the statutory auditor (sfndico) in a corporation should be a public accountant. In Argentina there was a provision to the effect that where that was not the case, the balance sheet must be certified and signed by a public accountant.

/He went

He went on to refer to the tax sparing clause under which there could be applied against the tax in one country not only the tax already paid on the same income in another country, but also tax unpaid by virtue of an exemption provision aimed at encouraging certain forms of investment. However, while certain types of investment carried a tax reduction in Argentina, that did not benefit the foreign taxpayer, but merely increased the amount of tax he had to pay in his own country.

Mr. MERZAN said that in Paraguay the balance sheets submitted to the tax administration were not required to be certified by a public accountant, although in practice that was the case. A special form of tax treatment was open to the smaller taxpayer, who could choose a system of coefficients instead of submitting accounting records. The profession of accountant was not of university level, as it should be.

It was difficult to ensure absolute homogeneity between legal requirements and commercial practices, but undoubtedly the auditor was the best link between the authorities and the taxpayer. With respect to penalties, he did not consider that the accountant should be held liable except in flagrant cases, since that would mean encroaching upon the principle of responsibility, which was that of the taxpayer.

Mr. TAYLOR considered that while there would always be differences between the taxable profit and the profit recorded for the information of shareholders and others, those differences should be easy to locate. It was not a matter of establishing accounting norms by legislation, since the law was too rigid, but of having them formulated and, where necessary, modified by the accounting profession itself. Accountants should come to an agreement with the tax administration so that accounting for tax purposes could be carried out on the same principles as those recommended in good commercial practices. For example, some tax administrations did not allow any adjustment in the prices of goods, even when the market had fallen considerably, so that businessmen tended to use the rate of assessment permitted for tax purposes. He also thought that an advisory tax tribunal such as that to which Mr. FARRIOLETTI had referred might be very useful.

/Mr. SIERRA

Mr. SIERRA agreed with Mr. Taylor that the accounting profession itself should establish the accountancy rules, and such action was all the more urgently needed in view of the common market and economic integration activities now in progress in Latin America. In that connexion it would be necessary to study the accounting of subsidiaries of foreign firms such as international transport companies which, because their activities were centralized, failed to include in their accounts an indication of the income received in the country. This left the door open to tax evasion on a large scale. As most tax administrations in the Latin American countries were slow, inefficient, antiquated and often lacking in trained staff, it would be helpful to give more responsibilities in the tax field to public accountants by laying down rules likely to earn them the confidence of the tax administration. He suggested that the next Inter-American Conference of Accountants should be asked to consider the possibility of drawing up adequate rules for the interpretation of certain accountancy terms, and auditing rules. He further suggested that the functions of the private and public accountant should be separated.

Mr. PIEDRABUENA said that the value of the taxpayer's documents as evidence should be indicated. In Chile the tax authorities had no powers to collect any tax over and above what was based on the return, unless it could show the information to be falsified or inaccurate. The tax administration could, in the latter case, dispense with the documents, the burden of proof then being reversed.

There were other accounting principles that required further elucidation in tax administration, e.g. the allocation of costs in respect of realizable assets, the correction of the ill-effects of inflation, and amortization methods. There had been considerable clarification of some of those matters in his country, but there was still much room for improvement, which was shown by the fact that only linear depreciation was recognized, which he believed was a mistake.

/With respect

With respect to tax incentives aimed at attracting foreign capital into the country, it was essential to recommend, as an alternative to the tax sparing clause, the solution proposed by OAS and already accepted by the European countries as a means of remedying the deplorable practice of transferring such tax advantage from the enterprise that should benefit to the Treasury of the country that exported the capital. That alternative was the exemption granted by the latter in respect of income obtained by its firms in the country that imported the capital.

The CHAIRMAN thought that the participants should discuss the problem of corporations or firms in Latin America that were small enough to be owner-managed and either had no shareholder or so few that their financial reports were private and prepared merely for the convenience of the owner. In the United States the ownership of a corporation was so widely dispersed that duly audited and certified financial statements were published for the benefit of the shareholders, without the tax aspects being taken into consideration.

The meeting rose at 1 p.m.

SUMMARY RECORD OF THE SEVENTH MEETING
held at Buenos Aires, Argentina
on Monday, 16 October 1961, at 3.20 p.m.

Chairman: Mr. MAGAÑA

CONTENTS: Controlling income tax evasion

CONTROLLING INCOME TAX EVASION

The CHAIRMAN invited Mr. Oldman to introduce his paper: "Controlling income tax evasion" (Document OAS/ECLA/IDB/2).

Mr. OLDMAN stressed the need for conveying an adequate picture of the Government's expenditure programme to the public as a means of encouraging voluntary compliance with tax obligations. The public should also be made aware of the anti-inflationary and regulatory objectives of taxation.

With respect to efficient collection, he considered the methods suggested by Mr. Lachmann and Mr. Rapoport in their written comments (Document OAS/ECLA/IDB/2/Add.1 and Add.2) to be most valuable. Of particular interest was the new method applied in Argentina, where a decision had been adopted to ensure the collection of income tax from the livestock sector by means of withholding arrangements. Collection would be facilitated if Governments made a special effort to prepare the taxpayer psychologically to comply with the tax laws.

On the question of the use of public taxpayer lists, he referred to Chile's experience in the matter. It was to be hoped that the shroud of secrecy now surrounding income tax information would gradually be lifted. The increased need for economic data should result in more income tax information being made available.

Economic sanctions were applied in many countries to compel compliance. In those where no effective sanctions were provided in the income tax law, a system might be devised whereby a taxpayer was required to show a tax clearance certificate before being permitted to engage in certain activities.

Penalties were an important part of a tax administration system. Their deterrent effect encouraged compliance, particularly from groups highly sensitive to loss of social prestige. Evaders usually felt that the odds were overwhelmingly in their favour. One authority believed that a 25 per cent risk of being caught would reduce tax evasion substantially.

/No penalty

No penalty system or other deterrent was effective without proper enforcement machinery, requiring a vast number of enforcement officials such as tax inspectors. In that connection, the experience of the United States with its tax on gambling was illustrative of the problem. The tax had been in force for eight years and evasion entailed severe penalties. However, gambling flourished as it had in the past because the enforcement machinery was inadequate. In most cases, however, the existence of penal laws would have a salutary effect because their application would stimulate law-abiding conduct on the part of the taxpayer.

He was not convinced, however, that a penalty system must go so far as to include prison sentences. Countries which lacked such a provision need not press for it and those which included it in their tax laws would do well to study its operation and usefulness.

At Mr. Oldman's request, the CHAIRMAN recognized Mr. Sharef, the observer from Israel.

Mr. SHARLF said that most of the tax laws in Israel had been made unworkable by the rapidly swelling population, the growth of a new economy and inflation. Evasion had been dealt with by reducing the tax rates on three separate occasions and by educating the new taxpayer. The public had been urged to disclose full income data and had been promised that the information would not entail a review of earlier returns and assessments. Care had been taken to maintain correct relations with the taxpayer.

An attempt was now being made to devise a simple income tax form for the lower-income groups and to concentrate most of the tax administration's manpower on the higher income brackets. The policy was to enforce the tax laws from the top, beginning with the most affluent taxpayers.

A campaign had been undertaken to convince the public that the taxes it paid were not for the benefit of the Government but to provide services for the people, the Government being a mere agent in the

/provision of

provision of those services to those who needed them. Public advisory committees, on which thousands of persons representing all branches of economic activity served, had been established to advise tax inspectors in the matter of assessments. A great improvement in public relations had resulted.

Tax laws, to be enforceable, should be moderate. If they were, they should be enforced by all possible means. Economic sanctions such as fines had proved unproductive in Israel because they had been regarded as a commercial risk. Nor had fines influenced the social attitude towards the tax evader. The decision had therefore been taken to impose penal sentences on offenders, particularly if large sums were involved. The measure was supported by the Government, the public and the Press. In the early stages, however, the courts had had to be convinced of the seriousness with which tax evasion was viewed. Lenient sentences imposed in lower courts had been appealed and in some cases satisfaction had not been received until a favourable decision had been handed down by the Supreme Court. Heavy fines and prison sentences had impressed upon the public the need for compliance with the tax laws, and public opinion had gradually shifted and now supported firm action against tax evaders. While much still remained to be done, considerable progress had been achieved by a policy of strict enforcement, moderate laws and good public relations.

Mr. RAPOPORT, referring to his comments (Document OAS/ECLA/IDB/2/Add.2) on the topic presented by Mr. Oldman, pointed out that owing to the existence of social, educational, cultural and economic differences, the task of determining the tax systems most suitable for the Latin American countries, had to be approached from their specific standpoint.

It should be recognized that the co-operation of employers was of great assistance in relieving the heavy administrative burden laid on the State by the collection of income tax. Nevertheless, since 1932,
/the year

the year in which income tax had been established in Argentina, and especially during the post-war period, tax administration had become more complex and a process of decadence and retrocession had come about, at the very time when it was necessary to grapple with the problems generated by inflation, higher rates and increasing evasion. It was only a year since remedial measures had been embarked upon and that the autonomy previously enjoyed by the tax administration had been restored, thanks to the realization that laws, however excellent, could not serve their purpose in default of an efficacious instrument for their implementation. It was to the lack of such an instrument that the increase in tax evasion was largely attributable, since it could not be considered an inherent feature of the problem, but an occasional phenomenon, facilitated by the impunity brought about by disorganization. At the time of speaking, indirect measures were being adopted in Argentina to improve the fiscal education of the taxpayer, while at the same time individual situations were being studied in a spirit of tolerance and understanding, by means of the delegation of responsibilities, decentralization of administration and the application of the statute of limitations in the case of "spontaneous presentation" on the part of the taxpayer. Such procedures were producing highly beneficial results, and were inculcating in the taxpayer the sense that the State knew of his whereabouts, was acquainted with his real situation and could compel him to meet his obligations.

With respect to penalties, imprisonment could only be applied in cases of criminal responsibility for forgery or falsification with intent to defraud the tax authorities; the latter is not in itself an offense. Fines were the penalty most commonly imposed on delinquents. Imprisonment for tax fraud, as proposed by Mr. Oldman, might degenerate into an instrument of political persecution. In that respect, civic maturity was the target that should be aimed at, since its attainment would establish a healthy attitude of co-operation between taxpayer and tax administration.

/Mr. LACHMANN

Mr. LACHMAN stated that the United Nations had over the years assisted Latin-American Governments in efforts to strengthen income tax administrations and income tax compliance. The first task there was to identify the causes of the widespread non-compliance found in most of the countries. In this connexion it would be interesting to hear the experiences of the participants in their respective countries.

Generally speaking those causes were primarily, ignorance - of law or fact - and disaffection - toward the government as a whole, toward the tax system or toward its administration.

In practice, of course, those causes were often mixed, ignorance being in many cases the result of negligence or even a cover for intentional violations, while disaffection in turn might lead the taxpayer to negligent or even wilful evasion of his obligations. Taken by itself, ignorance was especially potent, a factor where the very terms of the income tax were obscured in an increasing number of unco-ordinated texts of laws, revisions and amendments. Efforts to codify the income tax and, in fact, the entire tax law, were therefore of the highest importance and were in fact proceeding in a number of Latin-American countries, in several of them with United Nations technical assistance. Disaffection, in the first place, could be considered as the root of that anti-tax mentality which was the concomitant of under-development in countries whose governments failed to serve the rising aspirations of the population.

In important measure, however, such disaffection was specifically traceable to the existence of a tax system whose underlying policies and features were in conflict with the concepts of economic justice and progress of the country. It had to be realized that a bad tax system was unenforceable by any means, and that, in that sense, the techniques discussed at the present Conference could become fully effective only in conjunction with those measures of tax policy reform which would be the subject of the Conference to be held in 1962.

/As for

As for the role of penalties, their effectiveness depended on the certainty of their imposition in cases of violations and on their adequacy. On that point, he was not prepared to depreciate resort to gaol penalties, as had Mr. Oldman and Mr. Rapoport. He had been impressed by Mr. Sharef's report on the decisive role which gaol sentences had played in the success of the Israeli income tax. To be sure, the introduction of such an innovation in Latin America required careful preparation of the administration and the public, but, with that proviso, its implementation appeared to him essential to effective income tax enforcement.

Mr. MOISES-BEATRIZ stressed the need for a review of tax administration procedures in Latin America, particularly because of the imminent application of the tax reforms agreed to at Punta del Este.

Commenting on Mr. Oldman's suggestions to ensure greater voluntary compliance by the taxpayer, he agreed that every campaign designed to make the taxpayer clearly aware of his tax obligations and of the social purposes of taxation, and every effort made to educate him in shouldering his tax responsibility, constituted measures essential for the progressive eradication of open resistance to direct taxation and pernicious evasion practices. The Latin American countries might well embark on a publicity programme at the earliest possible date to counteract and cure the present deterioration of taxpayer morale. That remedy was not likely to produce results, however, unless it was developed intensively and on the basis of extremely effective devices, adapted to the psychological climate of each individual country.

In his view, the most effective method of controlling tax evasion in Latin America would be based on the development of a well organized and efficient system of tax collection, with particular emphasis on organization, supervision and control, information, planning of tax administration and extension of the withholding system. His detailed recommendations on those points were set out in his written comments on Mr. Oldman's paper (OAS/ECLA/IDS/2/Add.3).

/Mr. ALEGRE

Mr. ALEGRE proposed that the so-called legal forms of tax evasion, which were simply deductions authorized by the legislator and in practice reduced aggregated taxable income, should be combated by means of a system of juris tantum presumptions. To rebut such presumptions, the taxpayer would have to produce evidence that the actual situation strictly corresponded to the legal position.

Mr. PIEDRABUENA stated that in Chile incomplete income declarations were the chief factor in tax evasion. He considered evasion attributable in most cases to inequities in some laws, administrative shortcomings, failure to apply imprisonment penalties, and the occasional adoption of laws, granting of partial tax exemptions. Among the measures that might help to combat it would be elimination of those causes, trial by jury, prison sentences and the establishment of an intelligence service to investigate fraud.

Mr. BECERRA, referring to economic sanctions against income tax evasion, thought that 100 per cent was a very low rate, since in Colombia a rate of as much as 500 per cent was inexorably applied in the most serious cases. Criminal penalties, on the other hand, were not usually imposed because of the difficulties and legal problems involved. More important than sanctions of any kind was action to imbue the taxpayer with a sense of duty to society. Its absence meant that no stigma attached to really delinquent acts such as smuggling. It was therefore indispensable to stress the absolute necessity of compliance with tax law, on philosophical and moral as well as juridical grounds.

He pointed out the importance of the role of the tax adviser in relation to tax evasion, since in many instances the taxpayer would not dare to commit the infraction concerned without the accountant's support. The profession of accountant should be subject to regulation, and he should share the responsibility in the event of delinquency. It would also seem advisable for auditing procedures to be directed towards the education of the taxpayer, who would be given advice in

/a co-operative

a co-operative and helpful spirit, rather than for such procedures to be confined to the tracking-down of infractions.

Mr. DARDON observed that tax penalties, however effective, were merely the consequences of evasion and did not remove the underlying causes thereof. Very often the taxpayer was convinced that the Government was not using public funds in the best interests of the population. Many Governments needed assistance in planning a rational use of such funds. Another major cause of tax evasion was the unscrupulous tax consultant whose advice resulted in the filing of a fraudulent return. While the taxpayer concerned was subject to the statutory penalties, the consultant was not. A third cause was the practice in some countries of giving privileged treatment to foreign investment capital at the expense of domestic capital. Very often foreign capital invested in a country was exempted from all taxes.

Mr. VALDES COSTA asked why the system of withholding taxes from dividend and interest income had not yet been applied in the United States.

Mr. OLDMAN said in reply that the measure was difficult to apply in the United States because of the millions of dividend cheques sent out, most of them involving small amounts.

Mr. VALDES COSTA said he would like to refer to the scope of the movement towards codification of tax law, since he believed it to be far wider than Mr. Lachmann's paper suggested. The implication would seem to be that reporting procedures were defective. In that context, he cited Mexico's Tax Code and the Argentine and Brazilian projects, mentioning that the latter was the work of Mr. Gomes de Sousa. He considered Mr. Oldman's proposals for combating tax evasion to be very sound, although he was doubtful or in disagreement on some points - example, with regard to penalties, the suggested solutions gave rise to the danger that parliaments might delegate authority to the Executive. The Latin American constitutions, desirous of defending the rights of the individual, stipulated rigid separation of powers, and the solutions

/in question

in question would encounter insuperable difficulties. Nor could it be overlooked that legal functions in respect of taxation ought to be in the hands of courts that were independent of the administration. In that connexion, he recalled the recommendation formulated by the tax conference held in Mexico in 1958. In Uruguay such a specialized court already existed within the framework of the constitution. The principle was one which should be firmly established as a result of the present Conference. The prevention of tax evasion was not a question of severity but of perfecting systems.

Mr. CABEZAS felt that although it was easy to talk of the application of sanctions in general terms, the matter was not so simple when it came to fixing their amount in the case of economic sanctions or their duration in that of prison sentences. When a severe penalty had to be imposed, whether it took the form of an economic sanction or of imprisonment, it would obviously be essential to establish the intention to defraud, and where the relevant legislation was not unmistakably clear, it became very difficult to assess the element of deliberate deception. An administration that lacked the requisite training and ability might go to dangerous extremes. For instance, the infractions discovered in Bolivia, after the introduction of auditing, were on so vast a scale that if the appropriate sanctions had actually been applied, most of the taxpayers in the country would have been ruined.

Mr. SOLEY said that tax evasion was a world-wide phenomenon, and not confined to any specific country or group of countries. In the tax field, criminal penalties did not exist in Costa Rica, where only civil penalties were applied. Although a prison sentence could be imposed in the event of perjury, such a case had never arisen in connexion with tax evasion. What was more needful was a sound fiscal education programme, since income tax had been introduced in Latin America only recently. As the periods specified by the statute of limitations were fairly short, he did not think that the provision of incentives to voluntary compliance with tax law would have much effect

/in Costa

in Costa Rica. In short, the only solutions he considered feasible were to extend the statutory limitation periods or widen the range of penalties.

Mr. VELARDE said that in his opinion prison sentences were necessary not as punishment but as preventive measures. In Panama the new draft code established a penalty of one year's imprisonment, and it was hoped that the result would be a considerable increase in the amount of revenue collected. He did not think that the sources for the discussion of the problems under review should be confined to the decisions reached at Punta del Este. Without underestimating the value of those decisions, which represented a revival of the good-neighbour policy implanted by Roosevelt and dormant since his death, he thought that another and simpler motivation, more easily applicable, might be adduced to reinforce the Punta del Este approach. The problem which it was essential to tackle was that of Latin America's rate of demographic growth - one of the highest in the world - and the difficulty of counterbalancing it in respect of national income and economic development. The tax system should be considered as one of capitalism's most effective instruments of such development, provided that it was progressive and efficient. Although there were some who felt that a tax reform would impoverish the wealthier groups, he believed, on the contrary, that it would serve to open up new markets, as long as satisfactory programming machinery was available and the income thus obtained was not wasted in complicated bureaucratic procedure but was turned to practical and useful account.

Mr. DAVALOS alluded to statutes of limitation, and to the Latin American custom of assigning taxes to specific purposes, which multiplied the pertinent regulations. Corporation control should be improved, and antiquated and inoperative taxes abolished. Under a complete and consistent tax administration system, the qualifications required for tax administrators should be specified in the civil service statutes. Failing that, at least some efficient system of competitive examinations, promotion, remuneration, etc.

/should be

should be established for tax administration, on the lines of those existing in many countries for the armed forces and the teaching profession.

Mr. BUESO said that in Honduras, imprisonment for debt was unconstitutional; the law established strict conditions in regard to income tax returns, violations of which were punishable by economic sanctions. Fines could be up to 100 per cent of the amount owed. When the system was introduced nearly all those in the higher-income groups failed to comply with the requirements, and resorted to political manoeuvres to escape the sanctions. Nowadays the taxpayer was better educated and met his obligations without making any trouble. When it could be shown that there had been intent to evade the tax, fairly severe penalties were imposed. Since it was very difficult to prove such intent, he considered that that point should be eliminated from the definition of the offence.

Mr. SALAZAR DUQUE said that in Colombia, as in Chile, tax evasion was more often attempted through concealment of income than through concealment of expenditure; that was probably due to some degree of administrative inefficiency, which was gradually being remedied. The shortness of the period before the tax debt lapsed made it difficult to study the documents, which was very regrettable from the Treasury standpoint, and enabled the violator to take refuge in the impunity accorded by the law. Other causes of evasion were the taxpayer's ignorance of tax matters, and the absence of any penalties of imprisonment for offences in that field. The system of penalties needed to be modified so that different treatment was accorded to unpaid tax debts and to fraudulent attempts to evade tax obligations. In that connexion he referred to the "ghost" companies established abroad with Colombian capital. For the purposes of remedying situations of that kind, such useful bodies were being established as the Oficina de Instrucción Interna, which conducted campaigns, gave courses, published bulletins, etc.,
/especially during

especially during the period when tax returns fell due. There was also a department for the investigation of income, whose work culminated in the collection of the unpaid tax, fines of up to 500 per cent being applicable. Results were not unsatisfactory on the basis of a comparison between the cost of the investigation and the yield, since an expenditure of 3 million Colombian pesos had resulted in the collection of nearly 25 million.

Mr. FERNANDEZ PROVOSTE said that although the subject under discussion included both the prevention and punishment of tax evasion, the former had not received sufficient attention. Effective prevention of income-tax evasion should be based on a coherent and co-ordinated body of legislation that included machinery to assist the tax administration and discourage would-be violators, within the framework of an essentially just tax system, an efficient administration, and widespread knowledge and information as to the law and the general and particular benefits to be derived from compliance. In Chile, thanks to the personal efforts of Mr. Piedrabuena, it had been possible to collect statistics relating to the errors made in income-tax returns, whether deliberately or unintentionally, fraudulently or in good faith. The figures had shown what forms of evasion existed, and made it possible to take the necessary steps to deal with the, to prevent evasion and to evaluate the work of the tax inspectors.

Mr. FERREIRA considered that if the moral sense of taxpayers was to be educated, they must have some knowledge of development programmes and public investment. In Colombia information about those programmes was widely disseminated in order to win popular support and to ensure the participation of the whole active population in the fulfilment of the programmes, or at least those sections of the active population most directly concerned.

Mr. GIULIANI FONROUGE considered that imprisonment for tax evasion or tax fraud was a heavy penalty, whatever the circumstances. In Argentina the application of such a measure would be mistaken and /dangerous. Tax

dangerous. Tax debts had been known to provide a pretext for political persecution. So very difficult a question should be approached with due regard for the special circumstances prevailing in Latin America, and in the individual countries of the region. He agreed with Mr. Valdés Costa that in matters of that kind there should be no delegation of powers, since any such action would amount to a concentration of full powers in the hands of the Executive that would not be consistent with the institutional structure of those countries. The publication of lists of delinquent taxpayers would also be inadvisable, ineffective and dangerous. Great caution should be exercised in recommending any steps of that nature, and they should in any case, not exceed the bounds set by the cultural, political, economic and legal institutions of the country concerned.

Mr. GUTIERREZ said that tax evasion was clearly the most serious tax administration problem common to all Latin America. That could be deduced from the extensive discussion of the subject in which virtually every participant in the Conference had contributed information and expressed his opinion. He felt that the conference should consider the problem of tax evasion in general rather than in the specific context of the income tax. The problem, at least in Paraguay, covered a broader field which included, in addition to the income tax, such charges as the tax on real property, customs duties, etc. It was estimated in Paraguay that from 30 to 40 per cent of the revenue which normally accrued to the State was lost through tax evasion.

That was a serious state of affairs not only because of the adverse effect on tax revenue but also because tax evasion was habit-forming among those who practised it. The strong tendency of the habit to spread to others lowered and undermined the tax consciousness of the population.

The chief causes of tax evasion seemed to be the following:

/(a) high rates

(a) high rates of taxation; (b) proliferation of taxes and charges in respect of the same transaction or operation; (c) ignorance of the tax laws owing to insufficient publicity; (d) lack of specific, adequate information on the investment of funds collected; (e) inadequate administrative organization of tax collection offices; (f) lack of tax consciousness on the part of the population.

Measures to remedy or correct these negative factors should command the immediate attention of governments.

Tax legislation should be expressed in clear, simple terms so as to be easy to understand and apply, and tax administrations should be provided with an organizational structure capable of performing its functions at a high level of efficiency. Equally essential were improved co-ordination of data among the various State offices and an active campaign to present fulfilment of the tax obligation as a civic duty, in order firmly to implant a sense of tax consciousness among the inhabitants of the countries concerned. An effective measure might be to include that as a topic in secondary and vocational training schools.

He felt that accountants and other professional persons who signed fraudulent balance-sheets should incur the same penalty as the businessman who committed the offence. Penalties should be severe and suitable and should include publication of the offenders' names. However, prison sentences were inadvisable for the reasons already given by previous speakers.

A uniform accounting nomenclature, in which the meaning of each term was clearly explained, should be established as a means of facilitating analysis of the balance sheets of commercial enterprises. The various expenditures which affected assessment of a firm's operations could thus be included.

The meeting rose at 7 p.m.

SUMMARY RECORD OF THE EIGHTH MEETING
held at Buenos Aires, Argentina,
on Tuesday, 17 October 1961, at 10 a.m.

Chairman: Mr. MAGAÑA

CONTENTS:

Controlling income tax evasion (continued)
Administrative criteria in the establishment
of sales and excise tax structure

CONTROLLING INCOME TAX EVASION (continued)

Mr. OLDMAN hoped that it would be possible for one participant from each Latin American country to supply the specific information that was requested in his paper (OAS/ECLA/IDB/2, pages 3, 4, 10, 16 and Appendix).

In considering ways of following up the problem of controlling income tax evasion, it had occurred to him that one possibility might be to set up a committee on tax penalties in each country, composed of tax administrators, lawyers and representatives of other groups in the community. Its purpose would be to formulate model tax penalties that would be simple to apply from the administrative standpoint. After several such committees had been formed, an inter-American group might be established to study common problems and undertake short-term research. Longer-term problems could be investigated by Governments or universities.

In commenting on the discussion he noted that it was generally agreed that the control of income tax evasion involved every aspect of tax administration and many aspects of tax policy. Two points were worth stressing. One was the principle adopted in Israel, as commented on by Mr. Sharef, that the greatest efforts to control tax evasion should be directed towards the higher-income groups. The second point concerned the possibility of isolating groups of violators so that each group could be studied with a view to devising ways and means of increasing compliance group by group.

It had become apparent during the discussion that speakers were too apt to regard constitutional law as immutable, and were therefore chary of undertaking any radical reform of the tax administration. In his opinion, such laws could change and develop, consistently with the preservation of individual rights, and studies were apparently being initiated with a view to bringing about such development in Latin America.

/He considered

He considered that criminal and other penalties should not form part of the law unless they were actually applied, as their existence would otherwise tend to produce what he termed an "inflation in the field of administration". Unenforced laws are like uncontrolled currencies, he thought.

With respect to tax penalties generally, he was personally convinced of their necessity, but wished to add some reservations about the use of prison sentences. As Mr. Davalos had pointed out at the previous meeting, monetary sanctions ought to be applied effectively before prison sentences were contemplated. Also, in some Latin American countries, it was feared that sentences of that kind would be used for political ends. Furthermore, it was doubtful whether that type of punishment was closely related to the crime of tax evasion. Finally, on the grounds of justice, gaol sentences should not be resorted to until all violations which called for such sentences would and could be detected and punished. It was not regarded as fair to use only a few violators as examples, while other violators went unpunished by jail sentences. Jail sentences thus could not be used fairly until other methods of controlling tax evasion had been perfected and were being effectively applied.

Mr. RAPOPORT underlined the need to determine first and foremost who ought to be registered and pay tax, and to see that they did so, as well as the importance of education and of diffusion of the principles of compliance in order to promote voluntary compliance on the part of taxpayers. To supplement that system, study should be devoted to ways and methods of perfecting systems of tax collection, either by withholding or by reporting procedures. To achieve an efficient administrative organization, each country should decide upon the most suitable and efficacious instrument for its needs.

The penalty system ought to be as simple as possible and to comprise few rules, all of them applicable in practice. The essential requisite was that the population should know what the penalties were.

/With reference

With reference to the previous day's discussion, Mr. LACHMANN concluded that, in the opinion of the great majority of participants, the basic cause of non-compliance in the payment of taxes was popular dissatisfaction with the use to which the Government put tax revenue, with the structure of the fiscal system and with inefficient or corrupt administration. That was why the Punta del Este Charter laid so much stress on the need for a thorough reform of the tax system, although without implying that any attempt to improve the tax administration should be deferred until such a reform had been put into effect.

In order to prevent constitutional problems from arising in connexion with the application of penalties without court intervention, automatic penalties had been established in many countries under the terms of the tax law itself, e.g. in cases of failure to file returns and to pay the tax when due. Such a proceeding would not only eliminate the constitutional problem but also simplify many administrative difficulties in determining the degree of guilt, the amount of the fine, etc. As far as criminal penalties were concerned, he thought that without the threat of their application the other techniques could not be made really effective. The latter would merely make it easier to discover infringements, but unless these were severely punished, as by criminal penalties, the fear of discovery would not enhance voluntary compliance to any great extent.

ADMINISTRATIVE CRITERIA IN THE ESTABLISHMENT OF SALES AND EXCISE TAX STRUCTURE

The CHAIRMAN invited Mr. Due to introduce his paper: "Administrative criteria in the Establishment of Sales and Excise Tax Structure" (Document OAS/ECLA/IDB/4).

Mr. DUE said that he would not attempt to summarize his paper but would simply stress the main points made in it.

The first tax he considered was the multiple-stage sales tax. It was very simple to handle if applied uniformly but was not favourable to economic development. Moreover, it tended to discriminate against
/certain groups,

certain groups, which reacted by putting pressure on the Government to apply differential treatment. Once the principle of differentiation had been accepted the tax was no longer simple to apply. Some people believed that it was the best kind of tax for a country that was still at an early stage of economic development, but he considered such views to be dangerous, since the tax would inevitably be applied at an increasingly high rate as time went on, to the detriment of the economy.

Any form of sales tax was feasible provided the appropriate conditions were present. Some factors that governed the choice were the nature of the business, the amount of money to be raised, the nature of the channels of production and distribution and the relative importance of foreign trade in the economy. If the sales tax was not intended to bring in a sizable revenue, a single stage type was best. If it was to be a major source of income, however, the value added tax was preferable since its incidence was spread over all stages of production and distribution. The application of a value added tax to all retail activity as well would depend on the nature of the economy.

The simplest type was the retail tax, but its small size and its applicability to a large number of establishments gave rise to difficulties in certain countries.

With respect to tax coverage, he considered that there was no particular justification for not taxing services.

The tax treatment of producer goods was a particularly important question. In countries that were trying to develop economically it was undesirable to apply a sales tax to items that were purchased to expand the supply of capital goods, since the result was to raise the cost of investment.

From the administrative standpoint, however, it was difficult to apply a sales tax to some goods and not to others. Ideally, the tax should be levied on consumption goods only, but in many cases it was

/difficult to

difficult to distinguish between consumption and production goods. Sales tax should therefore apply to all goods with the following exceptions: materials and parts which became physical ingredients of commodities produced; industrial machinery and equipment; farm implements and machinery; railway rolling stock and other major equipment.

With respect to the exclusion of certain consumption goods from payment of sales tax, he believed that no exceptions should properly be made but that political expediency or considerations of equity sometimes made it necessary to exempt such items as foods and medicines that formed a sizable proportion of the budget of the lower income groups.

He stressed the importance of avoiding the inclusion in tax laws of features that were liable to provoke antagonism. An adjustment of price which was sometimes necessary for tax purposes when a particular price covered a taxable and a non-taxable transaction was a source of difficulty and annoyance to both vendor and tax administrator. As a general rule, a sales tax should be applied to the actual sales price of an article or the receipts from the sale.

In relation to the system of collection adopted, he considered that the use of stamps had some merits for excise taxes, but that in the case of sales taxes they simply served to distract attention from the important aspects of enforcement. To be effective, sales taxes needed a satisfactory auditing programme in which stamps would play no part. The fundamental evil of the system of low-rate taxes, such as stamps, was that it discouraged the issue of invoices and thus made the task of the auditors and tax inspectors doubly difficult.

It was very important that sales tax returns should be as simple and clear as possible. It had also been found that tax compliance could be increased if the requisite forms were sent to taxpayers by the tax authorities when the time came for the submission of returns.

/With regard

With regard to penalties, he considered that the only type that was effective as far as sales taxes were concerned was the automatic percentage fine. Criminal proceedings should be resorted to only in cases of extreme fraud. It was important to fix a minimum level for percentage fines, since they were often too small to be effective.

For the success of an auditing programme, whether for income or for sales taxes, it was essential to have trained personnel who had also spent several months in studying the intricacies of the particular tax they were about to deal with. The auditing of sales taxes was probably more difficult than that of income taxes and certainly required an abundant supply of accurate and clear information.

Automatic data processing would provide valuable assistance in the sales tax field. In the first place, electronic computers could undertake the routine work of processing taxpayers' returns. An important feature would be their ability to pick out delinquent taxpayers, either those who had not submitted returns or those who had failed to pay their taxes. They could prepare lists for bank deposits and internal control purposes, and select accounts for audit. Lastly, they could undertake the work of cross-checking sales figures reported in sales and income tax returns and make statistical analyses of data with respect to tax returns.

Mr. de MARCO ERVITI agreed with Mr. Due that the administrative aspects alone could not determine the choice between consumption taxes and sales taxes, nor even between the various kinds of such taxes. No general conclusions could be drawn, nor could tax formulas applicable to different countries be devised, without due regard for the economic and social structures of the countries where they were to be used. Certain decisions had first to be taken in the field of economic and tax policy. Such policy decisions would naturally have to take account of the administrative aspects of the taxes, as otherwise there was a danger of adopting formulas that were sound from the political standpoint, but were a failure when applied because of administrative shortcomings. However, it should be noted that to pay due regard to the administrative aspects should not imply neglect of policy aims, since that would

/involve going

involve going to the other extreme and adopting administratively ideal formulas that conflicted with, or did not fit in with, the economic and fiscal policy that the Government wished to pursue. It would not be appropriate to go into questions of tax policy, which should be reserved for the conference on the subject to be held in 1962. He believed that the most helpful course would be to indicate the administrative problems attendant on consumption and sales taxes, so that the experts who participated in the next conference would take them into consideration at the proper time.

There was no conflict between sales and consumption taxes from the standpoint either of fiscal policy or of tax administration. The essential aim should be to find formulas that would be applicable from both standpoints. Thus the administrative problems raised by consumption taxes varied, and would depend on the tax formula adopted. The administrative problems of consumption taxes levied at the manufacturer or importer stage according to the sales price recorded on the invoice or similar document were very similar to those of sales taxes collected at the same point. It might even be possible for a consumption tax based on the actual sales price of the product to be in any of the three forms of sales tax, namely, multiple-stage, single-stage or value-added. At one time all three formulas had been adopted for consumption taxes in Uruguay; at present the two in use were the single-stage tax on the manufacturer or importer, and the value-added tax.

Excise taxes, on the other hand, posed administrative problems of a very different kind; such taxes resembled ad valorem consumption taxes, and they were levied on the product not according to the actual sales value at the collection stage, but according to a fictitious value, or else according to a real value but at a different marketing stage from the one at which the tax was levied. Uruguay also had various forms of consumption tax.

... /Lastly, there

Lastly, there was one notable aspect of the single-stage sales tax. When that stage was not the retail sales stage, its application was extremely difficult in Latin American countries. The aspect to which he wished to draw attention, and which related mainly to taxes levied at the manufacturing or importing level, was the deliberate alteration of distribution channels to minimize the weight of the tax.

His comments on Mr. Due's paper mentioned the solutions to the problem provided by the Uruguayan legislation.

Mr. REIG, referring to his comments (Document OAS/ECLA/IDB/L/ Add.2) on Mr. Due's panel presentation, dwelt particularly on the case of Argentina. The tax transactions had been approved in 1934, and in the following year had been replaced by the existing manufacturers' sales tax. As at that time many excise taxes had existed in Argentina, approval had also been given to a law (in force since 1935) which had unified such taxes and provided for their application and collection by the Federal Government. Certain articles on which the incidence of excise tax was heavy had been exempted from the sales tax, but many others had remained subject to both taxes. Subsequently, the need to rationalize the administration of the manufacturers' sales tax, where the tax liability originated in the sale of merchandise, gave rise in 1949 to a significant change (in force as from 1950) in the method of applying excise taxes in relation to specific goods.

The speaker was not in favour of the application of a general multiple-stage sales tax. Although that form of taxation presented administrative advantages inasmuch as it discouraged evasion, it was offset by the increase in the number of taxpayers affected.

After touching upon other specific points - problems relating to taxable material and the tax base, to the structure of the aliquot or rate, the form of tax applicable and free trade areas - and alluding to other administrative characteristics and policies (use of stamps, time period of returns, use of security bonds, information, rapidity

/of the

of the control process), he said in conclusion that his sole aim had been to call attention to those aspects of the problem which were generally neglected in the Latin American countries and which were of basic importance for the administration of sales and excise taxes.

Mr. HART observed that the sales tax could provide vital information for tax control purposes. Purchasers ought to demand receipts. At the retail level, prizes might be offered for the preceding month's coupons or receipts. At the wholesalers' and manufacturers' level, the principle of the tax on value added could be combined with independent information on transactions between enterprises supplied by the buyer and the vendor. The combination could be checked by means of electronic equipment. If objective statistics were obtained, it was possible to exert pressure at all levels to ensure that returns were trustworthy.

The meeting was suspended at 11.30 a.m. and resumed at 12 noon.

Mr. NICHTAWITZ said that industrially under-developed countries had traditionally taxed consumption by applying import duties. That stage had been left behind in most countries, inasmuch as a high proportion of current consumption was satisfied by domestic manufactures. However, as some countries were still at the stage of importing consumer goods, the question arose as to what form of taxation - sales taxes, import duties, internal taxes, etc. - was most advantageous from the administrative standpoint for application to internal consumption.

Mr. DUE said that if all goods were imported it would be easier to tax imports than to apply a sales tax. But as most Latin American countries had reached the stage of producing a great many items domestically, the application of import duties alone would put importers at a disadvantage in relation to other groups.

Mr. RAPOPORT emphasized the importance today of indirect taxation for development programming. In Argentina, indirect taxes (excise and sales taxes, etc.) in the fiscal year which was drawing to a close were expected to account for over 60 per cent and the income tax for over 40 per cent out of an expected total tax revenue of 100,000 million pesos.

/He thought

He thought that the transition from one system to another - less consumer taxes and more income tax - ought to be made gradually, as income grew, and at the same rate. If that rate were not very carefully projected, the change might involve an enormous increase in the number of small taxpayers and a substantial loss of tax revenue now being collected.

Mr. CABEZAS asked Mr. Due to explain whether it was internal or external auditing that he considered indispensable, and, if the latter, whether it could be carried out in conjunction with the auditing of the receipts of enterprises.

Mr. DUE believed that a good sales tax system required both internal and external auditing. The first step was to verify tax statements against the records kept by firms and particularly their invoices for purchases. As the results were rarely satisfactory, it was necessary to resort to external auditing and to check all records kept by the suppliers and customers of the firm in question against the latter's own accounts. The joint auditing of sales and income tax returns provided a useful cross check.

Mr. MERZAN said that excise taxes existed in Paraguay and that for ten years an experiment in requiring taxpayers to declare their gross income had been in progress. The sales tax had been statutorily established in 1957, when the excise tax had been partly abolished, although it was still in force for alcoholic beverages, cigarettes, kerosene and petroleum derivatives. In respect of the sales tax, the law established a distinction between imported and domestically-produced articles. Raw materials and agricultural machinery were excluded. A tax ranging from 2 to 5 per cent was levied on sales of domestically produced goods, on the basis of sworn statements presented monthly by the manufacturer.

He thought that the fiscal structure of the Latin American countries would move towards the gradual abolition of excise taxes and the introduction of sales taxes. In Paraguay the revenue collected had

/increased considerably;

increased considerably; 15 per cent of the national budget was covered by the revenue accruing from the sales tax.

Mr. BRAVO said that in Colombia the sales tax had not been developed to any great extent. In his country the concept of income included income obtained from sales. He asked whether a blanket sales tax was compatible with income tax. Double taxation of that kind might be conducive to evasion, and the introduction of a blanket sales tax might produce unpredictable economic effects by raising the prices of goods. He thought that in Colombia the sales tax could be applied only to consumption of luxury goods.

In reply to a question that had been raised, Mr. DUE said that there was no incompatibility between the application of a general sales tax and that of income tax in the same country. On the contrary, he considered that the combination of the two tended to promote tax enforcement.

Mr. FERREIRA felt that excise taxes were generally easier to collect by means of stamps and other means, and that the application of a general sales tax was administratively more difficult. A sales tax involved restrictions on certain kinds of industrial consumption that would only yield a return if they were on a large scale. The administrative aspects of collection were in line with a tax policy that was generally favourable to economic development and the establishment of enterprises of some size that required large markets.

Mr. FERNANDEZ PROVOSTE referred to the proposals that had been under study in Chile. In Latin America, and especially in the countries which belonged to the Free-Trade Area, a fundamental consideration in choosing the type of tax to be imposed was the relative contribution of foreign trade to the economy. In both the Free-Trade Area and in the countries belonging to GATT, discrimination against imported goods would have to disappear.

/In Chile

In Chile the multiple tax had been discarded because its disadvantages outweighed its advantages, and a single tax had been adopted. Consideration had been given to the value-added tax on the final value of the product, and also to a mixed type of tax, consisting of a tax on the sale of the finished product of the producer or wholesaler when it was sold to the retailer or consumer, which made it possible to tax imported merchandise on the same footing, without discrimination. Consideration had also been given to the introduction of a value-added tax on retail sales, which was a method of applying a single rate to the total sale price of the product to the final consumer. That had advantages from the economic standpoint, and from the administrative standpoint it made possible an exemption for the producers, thus avoiding the problem of exempting capital goods. All manufacturers, producers and traders were required to register in the appropriate category.

With respect to the methods of administering such a tax, taxpayers in Chile were classified according to their economic activities in accordance with the United Nations standard classification. That made it easier to compare the situation of one activity with another, and to see the normal pattern of the flow of goods and compare it with the studies on the national product published periodically.

Mr. LOPEZ explained that, in addition to the sales tax, Argentina imposed another tax on income-producing activities calculated to supplement national and provincial taxes. The rate was graduated according to the type of gross income earned by the taxpayer. As a mere taxpayer, he asked whether a method of distributing the tax burden could not be found without resorting to systems of fifty or more years standing.

Mr. SOLEY said that there was no sales tax in Costa Rica. The State economy was largely dependent on customs revenue, which represented 54 per cent of the country's income. The remaining revenue to the Treasury was derived from the use of State capital. Income was also produced

/by the

by the State monopolies. Insurance companies had been nationalized in 1926 and banks in 1948. The sale of alcoholic beverages had been a government monopoly for over a hundred years. The State economy was fairly simple. There were only a few excise taxes. Income from customs revenue amounted to an average of 33 per cent. Costa Rica had not wished to subscribe to GATT and in 1952 it had denounced all the trade treaties which restricted its economy, except for those which contained the most-favoured nation clause. However, the time had come for a comprehensive tax reform since free trade was gradually altering the bases of income.

Mr. PIEDRABUENA asked whether the tax on value added was an income or a sales tax. It was a national tax mathematically equal to the value added at all levels and the total of retail sales. In Chile a tax had been sought which could be administered more effectively than a tax on sales at all levels.

Mr. DUE said he had three points to make. In respect of Mr. Hart's remarks, he doubted whether tax enforcement would be greatly increased by the establishment of lottery prizes for receipts on sales as a means of inducing customers to request such receipts. A Government might tend to rely on that sort of device to the detriment of the more important aspects of control, among which proper auditing was paramount.

The second point related to the plans that had been described by the participants from Chile. With respect to exemptions for certain types of goods, it seemed to him that the manufacturer who was both wholesaler and distributor would benefit from the possibility of making tax-free purchases, while firms that were more highly specialized would be discriminated against.

Thirdly, he noted that no comments had been made on sales taxes at the provincial level. In certain cases, a satisfactory body of regulations on sales taxes that had been formulated by the central Government might

/be violated

be violated by the provincial authorities, as had occurred in Argentina and Brazil. When a system was established, all the levels at which it was to be applied should be taken into account.

Mr. FERNANDEZ PROVOSTE replied that the problem of the Federal State intervening in the provinces had not arisen. All taxes were established by the central Government.

The meeting rose at 1 p.m.

/SUMMARY RECORD

SUMMARY RECORD OF THE NINTH MEETING
held at Buenos Aires, Argentina,
on Tuesday, 17 October 1961, at 3.40 p.m.

Chairman: Mr. MAGAÑA

CONTENTS:

Concepts and administration of taxes on property

CONCEPTS AND ADMINISTRATION OF TAXES ON PROPERTY

The CHAIRMAN invited Mr. Fitch to introduce his paper: "Concepts and administration of taxes on property" (Document OAS/ECLA/IDB/3).

Mr. FITCH explained that he had viewed the concept of property taxes primarily from the standpoint of feasibility, and that his paper dealt chiefly with taxes on urban property.

There were three main forms of taxes on property:

- (1) the tax on capital value;
- (2) the tax on gross or net rentals;
- (3) the tax on net wealth.

The tax on capital value had undergone a long process of evolution in the United States. At one time, it had covered virtually all forms of wealth, but it had been found more expedient to restrict it to real estate alone. A general tax on all property was difficult to administer effectively and should therefore be avoided. An exception should be made, however, in the case of a tax on automobiles, which presented no administrative problems.

A tax on the capital value of real estate would be difficult to apply, particularly because of the problem of assessing the value of the real estate for tax purposes. The Government's right to assess the value of real estate must be recognized. Moreover, the assessment should be based on the market value of the land. Land values tended to be fairly uniform. However, account should be taken of circumstances which might alter the value of a piece of land. Hence, property assessment should be kept up to date by means of mass data equipment. Urban property should only be assessed by experts - a procedure which would not impinge upon a local government's right to use the tax. On the question whether land should be taxed differently from improvements, he felt that a different rate could be applied if it was justified on economic grounds.

There was little to choose between a tax on capital value and a tax on gross or net rental of real estate. However, the economic impact

of the two forms of taxation would differ if each was precisely assessed.

A tax on net wealth should cover intangible property and other personal property. It was a useful form of taxation if administered by a national Government in conjunction with a tax on capital gains, and it should be developed, but only as a supplement to the income tax rather than as replacement of the property tax.

A crucial question in the taxation of urban property was the treatment of urban land. The objective was to capture for public purposes a larger percentage of the increased land values which typically accompanied urbanization. The results achieved so far, however, could not be considered satisfactory. A capital gains tax on land value increases had been more successful but had not been fully used to recover a larger proportion of such increases. It could be applied to provide social benefits to the community.

Mr. COLOMBO, commenting on Mr. Fitch's paper, referred to the specific case with which he had been concerned of general assessment of urban, sub-urban, rural and sub-rural property in the province of Buenos Aires between 1953 and 1955. Details would be found in document OAS/ECLA/IDB/3/Add.1. While not attempt had been made at that time to establish a new system, the purpose of the principles and norms applied had been to assess real estate in that province on the basis of homogeneous, uniform and stable criteria, free from subjective considerations, in order to correct the shortcomings which had steadily increased since 1927 in the tax records for those years. As a first step, the legal system in force had had to be revised, public support of the new assessment elicited, the cadastral system perfected, the basis of assessment fixed in accordance with normalized tables and coefficient, and the
/execution of

execution of the work carefully planned. The success of the system could be attributed to the provincial government's decision to prevent the intervention of political factors; the high level of culture and understanding of the population; the equitable conditions created by the application of the system; and the meticulous organization of the work.

Mr. NICTAWITZ felt that sufficient importance had not been attached to the systematic use of aerial surveys in assessing real estate. He agreed with Mr. Fitch that the administration of real estate taxes, particularly with respect to assessment, should not be entrusted to small local government units which lacked the proper facilities. He also shared Mr. Fitch's opinion on the use of the tax on capital gains obtained from real estate. In that connexion, the capital gains tax should be made more effective through machinery which would take currency devaluation into account in order to ensure that actual, not nominal, gains were taxed.

On the question whether improvements should be taxed as well as land, he did not see how the value of land could be assessed without considering the improvements thereon, particularly in the case of urban land. It therefore seemed difficult to tax the whole tax on the value of the land alone in the absence of established rates of assessment. The main disadvantages to the inclusion of improvements in the tax base could be overcome through specific concessions designed to promote improvements of interest to the community.

Mr. BECERRA described the way in which the so-called supplementary tax on capital had been established in Colombia. The tax was regarded as supplementary to the income tax, although it was sometimes based on immovable property. Starting from the premise that income from capital should be taxed more heavily than income from work, capital was not taxed on the actual income it produced but on its presumed income. The supplementary tax was administered jointly with the income tax, a procedure which simplified the work involved and reduced administrative costs. The tax had the additional benefit of facilitating effective income control by comparing declared capital returns, since the taxpayer

/was forced

was forced to declare his actual capital in order not to become liable to the excess profits tax.

The system used in Colombia to control the purchase of shares by such means as the cadastre, and the publicity campaigns undertaken, had contributed to the success of the tax, which had been in force for over forty-five years. It should be noted that actual possession of capital from which the owner profited was deemed to constitute economic possession; that the system could only be administered on a country-wide basis; and that Colombia had a fairly complete cadastral system in which aerial surveys and agrological studies were made.

In conclusion, he referred to surtaxes on non-productive investment in land (called urban action areas) for speculative purposes, estimated income on use in the case of luxury housing, and tax exemptions in respect of low-cost housing.

Mr. PIEDRABUENA warmly endorsed Mr. Fitch's recommendation of the use of aerial surveys as a technique for preliminary map preparation. Such surveys had been used in Chile after the earthquake in May 1960 to determine physical changes in the stricken areas. The technique had proved so successful that the Chilean Government had decided to extend it to the country as a whole.

With respect to taxes on property, he felt that they should be based on the value of improved land. If that was done, the inefficient landowner who failed to make improvements on his land would be penalized. Moreover, property taxes should be used in part to supplement the income tax.

Mr. WIESE considered that aerial surveys and a proper land registry system, preferably the Torrens method, were essential aids to real property taxation and investment. The Torrens method, in addition to its other advantages, made it possible to issue the title deed and simultaneously to record the transaction on magnetic tape which could be used in electronic tax processing equipment. He was highly optimistic with respect to the results of the work currently undertaken along those lines in Bolivia.

/Mr. VAIDES COSTA

Mr. VAIDES COSTA gave an account of the land tax system in Uruguay. There was an initial progressive tax, cumulative on a family basis, on the value of real property owned in the country, designed to abolish the latifundio system, as well as two taxes intended to penalize absenteeism - one levied on landowners who lived abroad, and another on those who did not farm the land themselves. The two forms of taxation had not been a success in application and attempts were being made to solve the problems involved by a revaluation of real estate and a change in the tax when the owner was a corporate body, particularly a stock company. Lastly, the tax on agricultural income was computed on the basis of an artificial income estimated according to the normal production of each farm. This was the only method which ensured general application of the tax, although its main purpose was to promote productivity. Hence the whole system of agricultural taxation was linked to economic objectives considered adequate in Latin America.

Mr. FONSECA said that in Honduras a property tax law which had been in force for some thirty years was gradually being replaced by more up-to-date legislation. The chief problem in his country was the tendency of property owners to under-assess the value of their property in their municipal tax returns and to place a high value on the same property in their income tax returns, so as to reduce both taxes. Another shortcoming in Honduras was the absence of a proper cadastre. The reason was that until recently the Government had shown little interest in rural areas.

He asked Mr. Fitch to clarify his references to the extension of the property tax to include intangibles.

Mr. FITCH explained that there were various types of intangible property; however, they should not be confused with real property.

Mr. BECERRA felt that Mr. Fonseca's difficulty seemed to be one of terminology. The word "intangible" as used by Mr. Fitch could best be translated in Spanish by the term "derechos personales y de crédito". The word "intangible" had a broader meaning in Spanish.

/Mr. QUESADA

Mr. QUESADA said that although the property tax in Costa Rica was one of the main sources of State revenue, it was far from producing what might have been expected, since it represented only 35 per cent of the potential yield. Such a high level of evasion was undoubtedly due to the fact that there was not cadastre. In order to remedy the situation it was proposed to modify the tax which applied only to the value of the land and not to improvements made to the property. Despite its commendable social basis, as a measure to stimulate urban development, agricultural progress and increased housing, there had been strong opposition to the proposed reform.

Mr. SIERRA said that in Guatemala the land tax was based on the tax register value which was determined by three different methods. There was also a tax on the transfer value and one on the value of uncultivated land. Although modern cadastral rating principles had been used in determining those tax bases, difficulties had arisen through lack of understanding on the part of those responsible for providing information on the cadastral surveys, for computing the additional value of urban property and for adding the value of buildings. The experience gained in Guatemala led him to believe that aerial surveys would help to solve cadastral difficulties in rural areas. Information should therefore be obtained on progress achieved in that branch of activity.

Mr. FERNANDEZ PROVOSTE observed that Mr. Fitch appeared to attribute greater economic effect to the taxation of the value of the land than to taxes on improvements. In Chile, the value both of the land and of improvements was taxed. He asked Mr. Fitch whether there was any advantage in not taxing improvements.

Mr. FITCH said that the value of land derived largely from its location and density of use which, in turn, depended to a considerable extent on the nature of the improvements to the land. That raised the question of the possibility of differentiating between land and improvements. Such a distinction presented no problems and was often made in the United States.

The main objective was to arrive at a situation where the landowner was not taxed unduly because he had chosen to put improvements on his land. For instance, the tax on improvements should not be heavier than the tax on the land. It should be borne in mind that improvements to one parcel of land increased the value of neighbouring parcels. A tax on land alone stimulated improvements. It captured more of the increases in land value resulting from urbanization and more intensive use of property.

The CHAIRMAN said that the time had now come to set forth in summarized form the consequences to be drawn from the Conference's debates, and the ideas that might provide guidance for the future work of the OAS/ECLA/IDB Tax Program. He believed that he was correctly interpreting the wishes of the participants in suggesting that that work should be entrusted to a person of so high a standing as Mr. Rapoport, Director-General of the Internal Revenue Administration of the Government of Argentina, the host country of the Conference.

The meeting rose at 5.45 p.m.

SUMMARY RECORD OF THE TENTH MEETING
held at Buenos Aires, Argentina,
on Wednesday, 18 October 1961, at 10 a.m.

Chairman: Mr. BARNES

CONTENTS:

General exchange of impressions on the practical
consequences arising out of the Conference

GENERAL EXCHANGE OF IMPRESSIONS ON THE PRACTICAL CONSEQUENCES ARISING
OUT OF THE CONFERENCE

The CHAIRMAN observed that participants in the Conference had discussed a number of problems and had made various suggestions. They might now comment on the practical consequences to be derived from the discussions, it being understood that since each participant was attending the Conference in a private capacity, his Government would not be bound by any recommendations or suggestions made.

Mr. ALMIRO repeated a previous suggestion concerning the desirability of establishing tax administration methods common to all countries. He supplied data on the progress achieved in Brazil in the tax field, e.g. the standardization of municipal taxes, etc., and requested that consolidated efforts be made by the organizations which had sponsored the meeting to standardize nomenclature and statistics in the tax administration field.

Mr. BECERRA suggested that a central office be established for the purpose of gathering information on the manner in which the various countries had solved their tax administration problems, and to serve as a consultative agency. Possibly some of the international organizations already had offices which might carry out such work.

The CHAIRMAN stated that the Organization of American States, through the Public Administration and Finance Unit of the Department of Economic and Social Affairs had already started work on the compilation of that type of information, and he called on Mr. Banzas, Director of the OAS Information Office at Buenos Aires to take the floor.

Mr. BANZAS gave a brief outline of the OAS Fellowship Programme, and referred to its main purpose, namely the economic, social, technical and cultural development of the peoples of America, intimating that in selecting candidates, OAS assigned priority to the studies, research and training essential to achieve that aim. He further mentioned the Direct Technical Co-operation programme whereby member States could

/request the

request the services of experts from other countries for their own agencies, to give special university or training courses. Finally, he referred to the latest programme established by OAS for the purpose of raising the technical level in the American countries - the Programme of Visiting Professors - which made available to member States the co-operation and assistance of well-known professors and research workers.

Mr. LACHMANN stated that since its inception in 1948, the United Nations Technical Assistance had developed a growing training programme (similar in many respects to that just described for the OAS) for government officials and university graduates of Member States. It consisted primarily of a fellowship programme for foreign study and observation. Fellowship training was provided in the tax administrations of the United States, Canada, the United Kingdom and in those European countries whose tax administration was closest to that of the fellows' own country. In some cases, they also were trained in the Fiscal and Financial Branch of the Department of Economic Affairs of the United Nations Secretariat for limited periods. There were also special university courses for those who wished to study tax policy and law, and train as teachers in these fields. Among those was the International Programme in Taxation of the Harvard Law School established in co-operation with the United Nations, in which government officials of Latin-American countries participated each year. The economic development programme sponsored by ECLA also had courses on public finance as had the Advanced School of Public Administration in Central America.

He stressed the desirability for tax administrations to prepare systematic long-term technical assistance programmes, in consultation with the United Nations Resident Representative, with a view to training - over a period of years - a substantial nucleus of highly qualified officials, and to obtain the advice of experts who would go to a particular country to study tax administration problems and propose solutions which

/would later

would later be developed by the officials who had received training. The same experts could also conduct in-service training courses in the tax administration of the country. He explained that such programmes were always carried out at the request of the Governments concerned.

The Technical Assistance programme for 1963 and 1964 was now in course of preparation, and interested officials should get in touch, through the pertinent government authorities, with the United Nations Resident Representative in their own countries.

In conclusion, he underlined the advisability of organizing conferences such as the current one and the earlier United Nations Conference on Comparative Fiscal Administration, to discuss experiences in this field.

Mr. CABEZAS felt that the Conference had served as a guide to help to ascertain whether each country's activities in the field of tax administration were developing along the right lines and whether the methods adopted were in accordance with modern techniques and with the experience gained in other countries; it had also made available written reference material in summary form. He believed that the Conference had been very useful in awakening interest in the subject and would serve as an encouragement to continue working.

Mr. SURREY said that one of the most valuable aspects of the Conference was the opportunity it had provided for tax administrators from the different countries to exchange views on an informal basis. Such opportunities should obviously be forthcoming at regular intervals in the future.

With respect to technical assistance, it was essential to devise ways and means of improving it so that it would be of maximum utility for the organizations and countries concerned. Skills in tax administration were a resource in short supply and should therefore be used to the best advantage. In that connexion, Mr. Lachmann's suggestion that technical assistance programmes should be systematized on a longer-

/term basis

term basis was extremely important. Special care should be taken to determine the kind of skills that needed to be promoted by technical assistance. He himself thought that in future such skills would have to be at a higher level since the progress being made in Latin America meant that the problems facing the tax administrations were becoming increasingly complex. More emphasis should therefore be laid on training people in systems analysis and programming. He asked those present to consider the kind of skills they would wish to be stressed in technical assistance programmes.

He assured the meeting that the United States would be glad to offer all possible assistance to tax administrators from Latin American countries who were anxious to visit the United States to study its tax administration. Some doubts had been expressed during the discussions as to the value of such visits in view of the extreme size and complexity of the organization in the United States. He therefore wished to point out that visits could be made to some of the smaller segments, such as individual states, where the problems and procedures would be more comparable with those in Latin American countries. If real benefit was to be obtained from such visits, it was important to provide a body of skilled interpreters who were well versed in the technicalities of the subject. He suggested that a special corps of interpreters should be formed to deal with tax matters.

He also asked that consideration be given to the planning of training centres. The organizations concerned should determine the kind of centre that was needed and the subjects that should be taught there. The preparation of statistical data and the use of statistical techniques were important subjects which should certainly be included in the courses.

Every effort should be made to continue with the investigation and study of certain subjects that had been discussed during the Conference, such as penalties for tax evasion and the provision of

/collateral information

collateral information to tax administrations. It was important to ascertain what type of collateral data would be most useful for improving auditing practices.

He stressed the need for regular meetings of tax administrators from the whole hemisphere or from Latin America alone to continue the work that had been started at the present Conference. It was particularly important that the top-level officials in tax administration should attend such meetings, since the possibility of improving tax procedures lay in their hands.

Mr. PECHMAN thought there was every possibility that Latin America could jump the intermediate stages in the development of its tax administrations, as Mr. Surrey had pointed out, provided that it made full use of its own resources as well as of information from other countries. He was convinced that all the countries in the region had analysts, economists and statisticians to do the necessary work.

He would urge tax administrators and tax policy officials to make full use of local research institutions. In the United States, such institutions provided valuable assistance to the Government.

He endorsed the suggestion made by several speakers that meetings of tax administrators should take place at regular intervals for an exchange of views on their common problems.

Mr. ALMIRO referred to the opinions expressed by some participants with regard to the need to establish a private agency, independent of the existing international organizations, which would compile and exchange information regarding tax legislation in the different countries and act in an advisory capacity where necessary. Specialized international contacts such as the Conference on Tax Administration should also be continued. In Brazil, where there were already groups at work studying tax systems from the economic and juridical standpoint, it was proposed to establish another group to study them from the standpoint of tax

/administration; and

administration; and on the basis of the work carried out by those groups, the possibility of reorganizing the whole tax structure was being studied. Finally, he suggested that one or other of the proposed international meetings might be held at Rio de Janeiro.

Mr. DAVALOS believed that an office or agency should be set up at the present Conference which could be kept adequately informed by the participants of any changes in legislation or administrative organization in their respective countries. He also suggested that participants should devote some time each year to extending the teaching of the subjects under discussion. In order to improve the organization of meetings such as the current one, he believed that the comments on each subject might be entrusted to groups made up of persons from several countries, which would make it possible to establish contacts, according to the special subjects concerned. The comments might be presented subsequently to the plenary sessions, thus simplifying and concentrating the discussion. Since in tax matters it might not be possible properly to separate fiscal policy from purely administrative policy, he believed it might be advisable at the next Conference on tax policy to be held at Santiago, Chile, to set up a group on tax administration. He also believed it would be advisable to develop a basic pattern such as Mr. Almiro had proposed.

Mr. BUESO said that the Conference had been most valuable as a forum in which the tax problems of Latin American countries could be aired. It had also served to illustrate the fact that administration of tax laws varied substantially from one country to another. A problem common to most, however, was the insecurity of tenure of tax administration officials for want of a sound civil service. Moreover, tax inspectors were often subject to political pressure. Nearly all the Latin American countries would require assistance in solving that problem. Very often the recommendations made by foreign advisory missions could not be applied in practice because the members of the group were not familiar with the legal structure of the country

/concerned. They

concerned. They should therefore discuss their recommendations fully with national tax administration officials.

Mr. MONTERROSO felt that the Conference had produced useful results. He hoped, however, that papers presented at any future Conference would be distributed well in advance so that they could be properly studied.

Since he had not had an opportunity to comment at the previous meeting on Mr. Fitch's paper on concepts and administration of taxes on property, he would like to say that in his opinion taxes on consumer goods should not be applied in Latin America.

The CHAIRMAN said that every effort would be made in future to distribute conference papers as early as possible.

Mr. LOPEZ agreed with Mr. Almiro that the taxpayers' interests should also be taken into consideration in tax administration. He cited several authoritative opinions to support that view.

Mr. PIEDRABUENA felt that in view of the increasing number of fellowships offered in many countries, a central agency might be set up to co-ordinate fellowship programmes. The possibility of setting up pilot projects in tax administration, on which comments could be made by tax officials from other countries, should also be considered.

With reference to the language barrier, it certainly applied to tax terminology and legislation. One remedy might be for each Latin American country to undertake to produce its own version of the World Tax Series prepared by Harvard University. When that had been done an attempt could be made to arrive at a uniform terminology such as was needed. With respect to tax legislation, a questionnaire might be drafted which would make available data on tax legislation as applied in each country.

He agreed that meetings such as the present Conference should be held periodically. He suggested, however, that the head of the tax
/administration in

administration in each country should be invited. Recommendations made at meetings could be applied more easily if senior tax executives took part in the discussions.

Mr. MAGAÑA mentioned that the Public Administration and Finance Unit of the Department of Economic Affairs of OAS was currently preparing a summary of tax legislation and administration systems in the various countries, along the lines of the suggestions made by Mr. Almiro.

The meeting rose at 11.40 a.m.

SUMMARY RECORD OF THE ELEVENTH MEETING
held at Buenos Aires, Argentina,
on Wednesday, 18 October 1961, at 4.50 p.m.

Chairman: Mr. BARNES

CONTENTS:

General exchange of impressions on practical
consequences arising out of the Conference (continued)

GENERAL EXCHANGE OF IMPRESSIONS ON THE PRACTICAL CONSEQUENCES ARISING
OUT OF THE CONFERENCE (continued)

The CHAIRMAN, speaking on behalf of Mr. Salazar, who was unable to be present at the meeting, said that Mr. Salazar stressed the importance of a direct exchange of documents and information on taxes among the Latin American countries, suggested an exchange of tax officials below the executive level and urged that direct relations between tax authorities and private enterprise - which was usually the chief taxpayer - should be encouraged in all the Latin American countries.

Mr. VALDES COSTA agreed that the exchange of tax information among the various Latin American countries should be intensified, as several participants had argued at the previous meeting. The duty of co-ordinating and systematizing such an exchange of information might well be discharged by the Latin American Tax Law Institute (Instituto Latinoamericano de Derecho Tributario), which had been in existence for several years, with Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay as members. He also pointed out that it was desirable for the measures adopted in the field of tax penalties in consequence of the discussions or recommendations of the Conference to be fitted into the juridical and institutional systems in force in each country. That would not in any way prevent the introduction of such legislative reforms as might be deemed necessary, provided they involved no violation of certain basic constitutional principles, the most important of which were those relating to the rights of the individual. Recently-created institutions such as the fiscal court in Mexico and the administrative claims court in Uruguay, to which constitutional status had been given, exemplified the feasibility of such a proceeding. He stressed that in his opinion it was absolutely essential, both from the theoretical and from the practical standpoint,

/that the

that the technical formulae considered worthy of adoption should be applied by the proper juridical methods.

Mr. FERREIRA outlined the government administration programme which was being worked out in Colombia in line with the economic development system adopted since 1958. The latter comprised an over-all development programme and a special public investment programme, which contemplated the creation of a school of public administration. He had pleasure in acknowledging the valuable work done in Colombia by ECLA, both in relation to the objectives referred to, and in the field of teaching activities, through the training courses.

Mr. WIESE felt that one of the chief problems to be solved in promoting more efficient tax administration was that of the administrative structure of the tax office. If the structure was inadequate the tax administration would be unable to benefit from the advice of its own experts, from the fellowships granted to its officials, or from the advice of foreign experts and advisory missions.

Mr. SIERRA thought that advantage ought to be taken of the existence of national bodies for the study, co-ordination and evaluation of taxation questions, and the provision of advisory assistance in that field. Every endeavour should also be made to standardize terminology in relation to the tax reform programme. Wide publicity and propaganda among the sectors concerned would be useful in furthering such ends.

Mr. REIG enlarged upon the suggestions of other speakers with respect to the indubitable advantages attaching to such pooling of information and experience as had taken place at the Conference. He also thought it desirable to form working groups and reduce the scope of agendas so that full discussion might be possible, and the participants might find it easier to reach a common awareness and understanding of their problems. He felt that there was an urgent need to create a Latin American centre for training and research in the field of taxation, which might well be modelled on the Harvard University programmes and

/established in

established in Argentina, where advantage could be taken of the experience acquired by the Faculty of Economic Sciences of the University of Buenos Aires.

Referring to the problem of the so-called "legal" income tax evasion in the agricultural sector, he thought that discretionary action on the part of the fiscal authorities was an infringement of the principle of fiscal justice. He therefore advocated the taxing of real proven income and the rejection of any system based on presumptions. The verification of net worth for tax purposes was proving very useful in Argentina. The sectoral control practised in Mexico seemed to him a procedure deserving of further and more detailed study.

With regard to the extension of the manufacturer's sales tax in the industrial sector, he thought that the tax burden ought to be shifted to the wholesale stage, thus relieving production - a step of precisely the kind to facilitate economic development.

Mr. VALDES COSTA felt it should be explained that the Uruguayan system of taxing imputed income from farming - a system of Italian origin - aimed at encouraging the development of agriculture and bringing about an improvement in the productivity of land.

Mr. REIG expressed the opinion that agricultural development should be promoted by means of land taxes, not through income tax.

Mr. TORRES AHUMADA proposed the establishment of an Inter-American Tax Information Service which would provide the tax data needed in the Latin American countries, and to which investors could turn for advice on their tax problems. The service would also be of benefit to Governments and tax officials by making available to them data on tax administration and legislation in other countries. In addition, it might compile a bibliography on the subject and publish a monthly information bulletin containing up to date tax information. Such a service might be established by an international organization.

Mr. VELARDE said that in his view the final conclusion to be drawn from the Conference was that the difficulties of the work that lay ahead in the field of taxation were such as to call for unflagging co-operation on the part of all concerned.

The meeting rose at 5.55 p.m.

Annex I

LIST OF PERSONS ATTENDING THE CONFERENCE

Participants

- Luis M. Adames P., Director of Income Tax, Ministry of Finance, Internal Revenue Department, Panama, Republic of Panama
- Gastón Alegre López, Secretary of the Mexican Academy of Public Finance and Professor of Tax Law, National Autonomous University of Mexico, Mexico City, Mexico
- Affonso Almiro, Director-General of Finance, Ministry of Finance, Rio de Janeiro, Brazil
- Herbert R. Balls, Comptroller of the Treasury, Department of Finance, Ottawa, Canada
- Héctor Julio Becerra, Legal Consultant, Bogotá, Colombia
- Juan Rafael Bravo A., Chief of the Tax Division, Ministry of Finance, Bogotá, Colombia
- Oscar Bueso, Director-General of Direct Taxation, Ministry of Finance and Economic Affairs, Tegucigalpa, Honduras
- Ramiro Cabezas Massés, Chief of the Inspection Department, Ministry of Finance and Statistics, La Paz, Bolivia
- Enrique Aquiles Colombo, Public Accountant, Buenos Aires, Argentina
- Félix Dardón Rodas, Chief of the Technical Council of the Ministry of Finance and Public Credit, Guatemala, Guatemala
- Carlos Dávalos, Director of the School of Public Administration, Central University of Ecuador, Quito, Ecuador
- John F. Due, Professor of Economics, College of Commerce and Business Administration, University of Illinois, Urbana, Illinois, U.S.A.
- Marius Farrioletti, Assistant Director, Plans and Policy Division, Internal Revenue Service, U.S. Treasury Department, Washington, D.C., U.S.A.
- Mario Fernández Provoste, Legal Adviser to the Ministry of Finance, Santiago, Chile

/Hugo Ferreira Neira,

Hugo Ferreira Neira, Lawyer; Professor of the High School of Public Administration, Bogotá, Colombia

Lyle C. Fitch, President, Institute of Public Administration, New York, U.S.A.

Cristóbal Flores Mejía, Director of the Budget, Treasury Department, Quito, Ecuador

Gautama Fonseca, Legal Adviser to the Ministry of Finance and Economic Affairs, Tegucigalpa, Honduras

Edison Gnazzo, Adviser to the Ministry of Finance, Montevideo, Uruguay

Rubens Gomes de Sousa, Professor of Tax Law, University of São Paulo, Brazil

Gustavo A. Guerrero, Deputy Minister of Economic Affairs, Managua, Nicaragua

Julio C. Gutiérrez, Comptroller of Finances, Ministry of Finance, Asunción, Paraguay

Chadwick J. Haberströh, Assistant Professor, School of Industrial Management, Massachusetts Institute of Technology, Cambridge, Mass., U.S.A.

Albert G. Hart, Professor, Columbia University, Adviser to the Minister of Finance and the Budget Department, Santiago, Chile

Harold F. Herbert, Director, Planning and Development Branch of the Taxation Division, Department of National Revenue, Ottawa, Canada

Federico Julio Herschel, Director of the Economic Research Centre, Torcuato di Tella Institute, Buenos Aires, Argentina

Cornelio H. Hueck, Director-General of Revenue, Ministry of Finance, Managua, Nicaragua

Karl E. Lachmann, Chief, International Tax Section, Fiscal and Financial Branch, United Nations, New York, U.S.A.

Alberto T. López, Public Accountant, Buenos Aires, Argentina

Hugo A. de Marco Erviti, Public Accountant, Professor of Tax Legislation, Faculty of Economic Sciences, Montevideo, Uruguay

Carlos A. Merzán, Professor of Tax Legislation, Faculty of Economic Sciences, Asunción, Paraguay

Alfonso Moisés-Beatriz, Lawyer and Notary, Administration of the Salvadorian Association of Industrialists, San Salvador, El Salvador

Richard A. Musgrave, Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland, U.S.A.

Teodoro Nichtawitz, Adviser on Tax Legislation, Office of the Resident Representative of the Technical Assistance Board, United Nations, La Paz, Bolivia

Oliver Oldman, Professor of Law and Director of Training, International Program in Taxation, Harvard Law School, Cambridge, Mass., U.S.A.

Joseph A. Pechman, Executive Director, Studies on Government Finance, The Brookings Institution, Washington D.C., U.S.A.

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/Luis Tola Pasquel,

- Luis Tola Pasquel, Superintendent-General of Taxes, Ministry of Finance and Trade, Lima, Peru
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- Carlos A. Velarde, Chief, Internal Revenue Department, Ministry of Finance, Panama, Republic of Panama
- Gustavo Wiese, Tax Adviser of the Technical Assistance Administration in Venezuela, United Nations, Caracas, Venezuela
- Raúl Ybarra San Martín, Director of the Institute of Public Finance, Faculty of Economic Sciences, Montevideo, Uruguay

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- Francisco López Barona, Auditor-General of Customs and Indirect Taxes, Tegucigalpa, Honduras
- Nelson Beaumont Mattos, Ministry of Finance, Rio de Janeiro, Brazil
- Afranio Mello, Director of Statistical Services, Ministry of Finance, Rio de Janeiro, Brazil
- Héctor Monterroso González, Director of the Economic Research Department of the Bank of Guatemala, Guatemala, Guatemala
- Hiram Phillips, Chief, Latin American Program, Public Administration Division, International Co-operation Administration, Washington, D.C., U.S.A.
- Albert J. Provasnik, Representative of the United States Internal Revenue Service, São Paulo, Brazil

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Other Argentine observers

Vicente Caride

Isaac Rechter

León Sapolsky

Annex II

JOINT PROGRAM ON TAXATION OF THE ORGANIZATION OF AMERICAN STATES AND THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA, WITH THE PARTICIPATION OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE CO-OPERATION OF HARVARD UNIVERSITY^{a/}

A. Introduction

This report presents a summary of the aims and development of the Joint Program on Taxation undertaken by the Organization of American States and the United Nations Economic Commission for Latin America, with the participation of the Inter-American Development Bank and the co-operation of the Harvard University Law School. The latter, which has had long experience in this field, as a result of the International Program in Taxation, has appointed a full-time representative to co-operate with the committee in the technical aspects of its work.

The four participating institutions set up a Special Coordinating Committee to organize and direct the work of the programme. This document is a report by the Committee to the participating institutions and to the Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level.^{b/}

The report covers the period between October 1960, when the Program started, and July 15 1961.

The chief aim of the Program is to contribute to the strengthening of tax systems in Latin America, the improvement of fiscal administration and the training of fiscal officers. It will cover three successive aspects or phases: (1) preparation of a conference on Tax Administration,

a/ The text reproduced here is that of document ES-RE. Information Doc. No. 10 of 28 July 1961 (Original: Spanish) issued at the OAS Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level (Punta del Este, Uruguay, July-August 1961), minus the appendices.

b/ Document 4 of the Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level, Uruguay, August 1961, Report of the Group of Experts, Planning for Economic and Social Development for Latin America (Topic I of the Agenda), Note 1, page 18.

to be held at Buenos Aires, Argentina, from 11 to 19 October; (2) carrying out of fiscal studies in several countries, by national and international experts, to be concluded in 1961 or early 1962; (3) preparation of a meeting on Tax Policy in Latin America to be held at Santiago, Chile, in 1962 upon completion of the fiscal studies.

It is hoped that, apart from other benefits, the meetings will be particularly useful as forums in bringing together national and foreign specialists and experts on tax administration and policy. This will facilitate a comprehensive exchange of knowledge and experience which will enable them to come into contact with technical and practical developments and with the systems in force in other countries.

Moreover, the meetings and fiscal studies will help to develop an interest in recasting and modifying existing tax systems and administration in the Hemisphere, since they will provide valuable information on the present position of such systems and their problems.

Finally, the meetings and fiscal studies will, it is hoped, help to orient tax policy towards an efficient mobilization and allocation of resources in line with the policy of rapidly improving the level and distribution of per capita income.

They will, on the one hand, provide important guide lines for determining the best way to achieve international fiscal co-operation, particularly with respect to the training of tax officials and, on the other hand, they will be of great value in enabling countries to set definite goals for their respective reforms, on general principles of taxation and tax administration in accordance with their economic and social development programmes.

It should be recognized that the reform of each country's tax system must be worked out by the country itself from plans drawn up by national institutions in the light of the country's own specific needs and circumstances.

The Committee expresses the hope, however, that the Program will serve as a ready means of enlisting the co-operation required to facilitate a study of general principles leading to appropriate changes in the tax system.

B. Conference on Tax Administration

There are several basic reasons for beginning the Program with a study of the problems related to tax administration. Perhaps the main reason is that, no matter how suitable the tax laws of a country, tax revenue and the attainment of tax policy objectives will depend upon strict compliance with tax obligations by the taxpayer which, in the final analysis, depends on efficient tax administration. In this respect, much can be gained by improving the qualifications of fiscal employees. The experience in many Latin American countries gives reason to hope that the improvement of tax administration will, by preventing of fraud and evasion, lead to a substantial increase in tax collections. This is due to the fact that improved administration produces an immediate increase in tax revenue without requiring changes in fiscal legislation. An efficient administration, it should be noted, is in fact the only way in which the objectives sought through tax reform can be achieved.

The first meeting, arrangements for which are well advanced, will be held at Buenos Aires, from 11 to 19 October 1961. Some sixty experts from the countries of the Hemisphere will take part. A monograph on each of the eight topics of the Agenda will be presented at this meeting.^{c/} The monographs have already been prepared by experts of recognized international standing and authority in the field, and will be presented to the conference by the respective authors; comments on them will be made by at least two participants from different countries for the purpose of examining the application of the ideas expounded in the monographs to the problems of taxation and to present conditions in Latin America. In order to facilitate the work of all participants at this meeting, they will receive a copy of the monographs sufficiently in advance to enable them to study and analyse the papers in detail. Participants will thus be in a position to bring their personal experience to bear on the problems being debated.

^{c/} See above, paragraph 16.

As a further means of ensuring the progress of this first meeting and the practical application of the ideas to be discussed, a request has been made to all countries for valuable statistical material which will be compiled and an inter-country comparison made for presentation to the participants.

After the Conference has ended, the monographs and related papers will be published so that they may be widely circulated in all the countries of the Hemisphere.

C. Fiscal Studies

The second phase of the Program consists of the preparation of detailed studies of the tax systems and deficiencies in the Latin American countries. The initial steps have been taken for studies on the first group of countries, which will be completed early in 1962. These studies will be subsequently extended to the remaining group. In order that they may be of general and specific use it is proposed to carry them out on the basis of uniform plans which will permit a comparative study of the results obtained. In short, it is hoped that, briefly, in addition to providing an analysis of the tax structure of the countries concerned, the studies will help to unravel the main problems common to all. They will thus form an efficient basis for consideration and discussion at the conference on Tax Policy.

Experts from a considerable number of countries have been consulted, and an advisory group, appointed for the purpose of determining the plan and content of these studies.

D. Conference on Tax Policy

The final agenda and bases of the Conference on Tax Policy cannot yet be indicated. They will be formulated in the light of the aforementioned consultations with national experts and the advisory group. However, reference can already be made to some of the fundamental problems which will undoubtedly be discussed at this meeting, e.g. the inadequacy of current tax resources in most of the countries of the region in terms of adequate levels of public expenditure compatible

/with accelerated

with accelerated programmes of economic growth, the external vulnerability and the inelasticity of tax revenue and the lack of clear guidance in tax policy conducive to the promotion of increased national savings and investment and the channeling of the latter toward the sectors of the population making the greatest contribution to economic development.

The meetings on taxation and fiscal studies are not proposed as an end in themselves, but rather as a means of helping the Latin American countries to prepare for the difficult task of introducing tax reforms and improving administration. The genuine interest shown for the Program in all the Latin American countries makes it possible to hope that the two conferences and the aforementioned studies will prove useful to countries where tax reforms are being carried out as well as those countries about to undertake them. As mentioned in the attached resolution of the ninth session of the Economic and Social Development Committee of the United Nations Economic Commission for Latin America, held last May, the governments have definitely supported the tax programme. It should be noted that the outstanding progress made to date in the programme would not have been possible without the enthusiastic and wholehearted co-operation of the numerous tax officials and experts whose help was sought.

Annex III

RESOLUTIONS OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN
AMERICA (ECLA) AND THE INTER-AMERICAN ECONOMIC AND SOCIAL
COUNCIL (IA-ECOSOC) OF THE ORGANIZATION OF AMERICAN
STATES (OAS) RELATIVE TO THE OAS/ECLA/IDB
TAXATION PROGRAM

1. ECLA resolution adopted on 13 May 1961

186 (IX). FISCAL POLICY

The Economic Commission for Latin America,

Taking note with satisfaction of the preparatory work carried out by the Secretariat, the Organization of American States and the Inter-American Development Bank, in co-operation with the Harvard University Law School International Program in Taxation, with regard to proposals for a long-range programme for studying the bases for a reform of tax systems with a view to using them as instruments of fiscal and economic policy.

Considering the need of the Latin American States for resources wherewith to undertake, as a matter of urgency, intensive capital formation in the basic sectors of the economy,

Bearing in mind that the tax system may be a valuable instrument of co-operation in a policy designed to promote the more equitable distribution of income and to facilitate the financing of economic development programmes.

Considering that such a system may be conducive to a more efficient use of the land, such as will increase its productivity,

Decides:

1. To request Governments to give their support to the studies which are being developed by the sponsoring agencies in connexion with the tax reform and fiscal policy programme, and, in particular, to collaborate to the fullest extent possible with the experts who will be appointed to carry out the work of study and research on the tax systems in force in the Latin American countries;

/2. To

2. To request the Secretariat that the above-mentioned tax programme make express provision for the need to improve tax administration and yields, as well as to study the bases for a tax system which will mitigate the external vulnerability and inelasticity of these systems, and will serve as an instrument of policy which may promote, in combination with others, the improvement of income distribution and land use and, in short, may constitute a valuable adjunct to economic development programmes;
3. To request Governments that they facilitate the attendance of national experts at the two conferences which are being organized under the above-mentioned programme, one to be held in October 1961 on tax administration, and the other in April 1962 on fiscal policy.

2. IA-ECOSOC resolution approved on 17 August 1961

A.3 TAXATION PROGRAM

WHEREAS:

Satisfactory progress has been achieved by the Pan American Union, the Economic Commission for Latin America, and the Inter-American Development Bank, in co-operation with the Harvard University Law School International Program on Taxation in carrying out a long-range programme to strengthen tax systems;

The American states need to mobilize their domestic resources in order to fulfil the principles of the Act of Bogotá; and

The application of sound tax policy and administration facilitates the financing of economic development and contributes to social progress through more equitable distribution of income and the encouragement of more productive use of land,

The Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level

RECOMMENDS:

1. That the governments of the member states encourage participation in the programme which is being developed by these sponsoring agencies.

/2. That

2. That the Pan American Union assist in carrying out activities of training and research under the programme developed by the sponsoring agencies.

3. That the governments of the member states facilitate attendance of national experts at the two conferences which are being organized under the programme, the first to be held in Buenos Aires in October 1961, on tax administration and the second to be held in Santiago in 1962 on tax policy.

4. That the governments, through their ministries of finance or other competent government departments, co-operate in preparing working papers for these conferences, by providing basic data and fiscal surveys.