

MEASURING TAX TRANSACTION COSTS IN SMALL AND MEDIUM ENTERPRISES



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Preface

A favourable business climate is an important factor in a country's economic prosperity: making things easier for companies to meet their obligations, including their tax obligations, promotes competitiveness and contributes to growth.

If an entrepreneur has to comply with numerous bureaucratic procedures to register as a taxpayer, as well as declare and pay the various taxes established in the tax regulations, those circumstances may entail redundancies, delays and additional costs, and trigger unnecessarily high transaction costs. In addition to paying taxes, business owners incur an opportunity cost for the time spent on complying with administrative procedures. This may also lead to the emergence of intermediaries who handle the paperwork, thus making it more costly to open and run a business.

The complicated procedures and excessive costs may force some business people to give up and abandon their efforts; others choose to continue without subjecting themselves to all the required obligations. Indeed, many end up operating their business in the informal sector. In the event, such businesses, in trying to pass unnoticed by the authorities, significantly constrain their own potential for growth and job creation. Informality not only creates uncertainty for businesses and workers, but it also deprives them of access to government support and to the financial sector in general.

Strategies to simplify and lower administrative barriers should, therefore, be properly devised, taking into account the various indirect costs or tax transaction costs (TTCs) that are prompted by tax compliance. TTCs are the total amount of money spent by society to comply with the tax system. Their main components are the costs borne by taxpayers when complying with their obligations (known as compliance costs) and the costs faced by the tax administration for ensuring compliance by taxpayers (or administrative costs).

In addition to the tax liability itself and the losses caused by market distortions, TTCs are another economic cost of taxation. It is worth noting that compliance costs (CC) may comprise not only

internal costs but also external costs. Internal costs are those associated with the time needed to prepare tax data, filing returns or other attendant requirements of national tax administrations (NTAs), the cost of accounting software used to prepare such information, staff remuneration, training expenses, and so on. External costs are usually associated with the fees paid for external tax advisers.

A detailed quantitative assessment of TTCs allows an accurate and timely evaluation of measures that may be included in a possible reform. There are several studies that show a negative correlation between compliance costs and the willingness to pay taxes, thus highlighting the role of CCs in determining taxpayer behaviour. Factors such as the ease with which taxpayers could comply, as well as the probability of being audited or the size of the penalty, may play a role.

In short, identifying, measuring and reducing the main components of TTCs could improve a country's business environment, thereby facilitating tax compliance in the formal sector of the economy and consequently promoting competition, productivity and competitiveness.

The purpose of this publication is to provide tax administrations with a methodology that allows them to identify and measure TTCs for taxpayers and tax institutions, thereby supporting possible administrative reforms and improving tax procedures with a view to fostering greater tax compliance.

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Introduction

This publication is a result of a project, undertaken jointly by the Financing for Development Office (FfDO) of the United Nations Department of Economic and Social Affairs and the Inter-American Center of Tax Administrations (CIAT), aimed at strengthening the capacity of national tax administrations (NTAs) in developing countries in Latin America to measure tax transaction costs (TTCs). The ultimate goal of this project was to support the development of an empirical methodology to assess TTCs, which could assist in identifying possible reforms aimed at reducing these costs.

The project was funded through the United Nations Development Account. The work was coordinated by a small team comprising both United Nations and CIAT officials, under the respective supervision of Mr. Alexander Trepelkov, Director, FfDO, and Mr. Márcio Verdi, Executive Secretary, CIAT.

Within the FfDO, the work was carried out by Ms. Dominika Halka, Chief of Unit, and Mr. Harry Tonino, Economic Affairs Officer, Capacity Development Unit. Within CIAT, the work was managed by Mr. Socorro Velázquez, Planning and Institutional Development Director, and Mr. Miguel Pecho, Tax Studies and Research Director.

A Steering Committee was set up to provide technical guidance and monitor activities throughout the project, which comprised the above-mentioned United Nations and CIAT officials, as well as Mr. Ricardo Martner, Fiscal Area Coordinator, Economic Development Division, Economic Commission for Latin America and the Caribbean (ECLAC), and Mr. Jürgen Gafke, Senior Finance Officer, Capacity Development Office, Department of Economic and Social Affairs, United Nations.

The project was implemented with the support of three regional consultants, namely: Mr. Byron Vásquez (Leader), Mr. Eduardo Ibarra and Mr. Marcel Ramírez La Torre. They were responsible for developing a practical methodology for the measurement of TTCs in small and medium enterprises and pilot testing it. The result of their work is summarized in this publication, which was drafted in coordination with FfDO and CIAT.

Implementation of the project started in May 2012. As a first step, FfDO and CIAT held several working meetings to discuss its conceptual framework and scope. Subsequently, with the support of the regional consultants, a concept paper was devised, aimed at outlining the process and modalities for developing a methodology to measure TTCs in small and medium enterprises.

On this basis, a first draft of the methodology was prepared and thoroughly discussed at a workshop, which was held in Panama City, Republic of Panama, from 27 February to 1 March 2013, with the participation of 14 officials from the NTAs of 10 Latin American countries.

Following the workshop, the methodology was revised to take into account the feedback and comments provided by the participants, and then it was pilot tested in Costa Rica and Uruguay, with the support of local teams of officials from the respective NTAs. At the same time, the Brazilian NTA engaged with the project and pilot tested the methodology in its own system on a self-funded basis.

The results of the pilot implementation of the methodology in the above-mentioned countries were then presented and discussed at a workshop, which was held in Panama City, Republic of Panama, from 20 to 21 November 2013, with the participation of 16 officials from the NTAs of 13 Latin American countries.

In follow up, the NTAs of Ecuador, Dominican Republic, Guatemala and Panama expressed their interest in making use of the methodology. Moreover, in a later development, the NTA of Chile planned to use the methodology to conduct measurements at the end of 2014, with partial financial support from the Institutional Cooperation Programme between European Union and Latin American Administrations (Eurosocial II—Promotion of Social Cohesion in Latin America).

A comprehensive description of the methodology, detailed reports of its pilot implementation in Costa Rica and Uruguay, as well as a summary of the lessons learned and relevant recommendations are included in this publication. It is important to note that these recommendations are based on several approaches that have proven to be good practices in various countries. However, tax administrators

should be cautious in applying them to different contexts and should consider the legal framework and the degree of institutional development required to adapt these practices to the situation in any specific country.

This publication is available both in English and Spanish. It will be launched and distributed at the tenth session of the United Nations Committee of Experts on International Cooperation in Tax Matters, which will be held in Geneva, Switzerland, from 27 to 31 October 2014, as well as at the 2014 CIAT Technical Conference, which will be held in Santiago de Compostela, Spain, from 6 to 9 October 2014.

The electronic version of this publication will be available free of charge in English at http://www.un.org/esa/ffd/documents/TTC_Eng.pdf, and in Spanish at http://www.un.org/esa/ffd/documents/TTC_Sp.pdf.

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Part One

**Methodology for Measuring
Tax Transaction Costs
in Small and Medium Enterprises**

Chapter I

Tax transaction costs

Many developing countries are looking for ways to improve their competitiveness and regulatory efficiency. To this end, they have implemented various strategies continuously to upgrade their tax systems. This quest for improvement is usually geared to simplification in the general belief that simpler is better.

An example is the introduction of simplified tax regimes that seek to reduce taxpayers' compliance costs (CC) by simplifying often unnecessary tax procedures and requirements. These simplified arrangements, by significantly lowering the tax they replace, seek to attract a substantial number of informal taxpayers who for various reasons are operating on the fringes of the normal tax system. In this sense, these regimes seek to increase formalization, expand the tax base and instil habits of tax compliance throughout society, particularly in small and medium enterprises (SMEs).

Several studies, however, have shown that despite the tax administrations' enormous efforts to foster voluntary compliance, there persist a number of costs — sometimes hidden or not so obvious — that taxpayers and tax administrations (TAs) have to assume by virtue of the existence of the tax system.

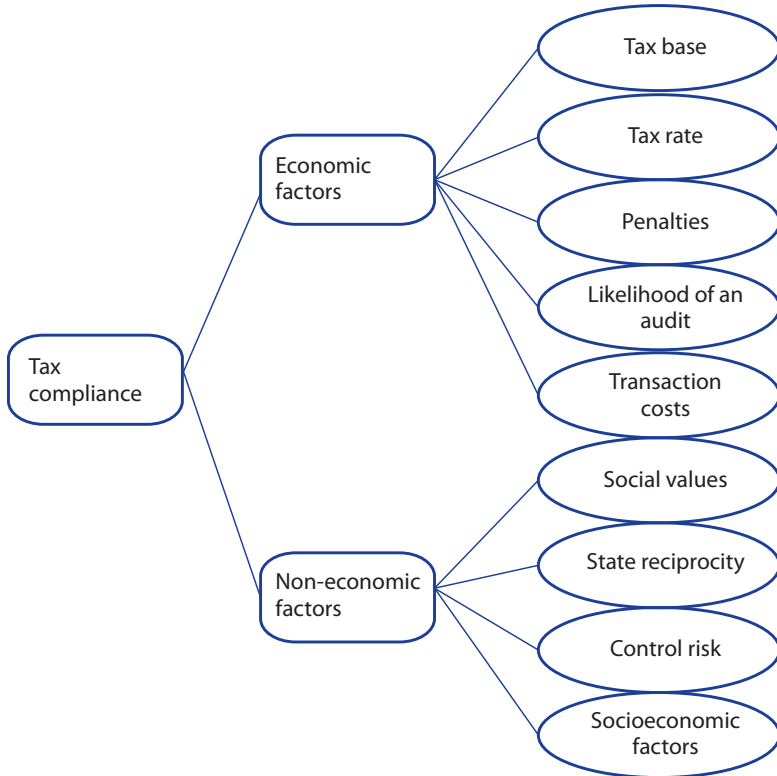
For that reason, this study seeks to make a contribution by providing a tool to measure the tax transaction costs (TTC) incurred by both the national TAs and taxpayers. On that basis, it hopes to allow those managing and devising public policy to identify areas for improvement in tax system design and administration, particularly as regards SMEs.

1.1 What are tax transaction costs?

Many factors affect the degree to which taxpayers comply with their tax obligations. In general terms they can be grouped into economic and non-economic factors.

In addition to the economic factors, the literature (Barbuta, 2011) and quantitative studies on the subject have identified several non-economic issues affecting tax compliance.¹

Figure 1:
Factors affecting tax compliance



A high-impact economic factor is the tax transaction cost. Empirical studies by Torgler (2005), Torgler and Schneider (2002), Cummings (2005) and others show that in most cases a transparent management on the part of the tax administrations, in conjunction with clear and simple rules, fosters greater compliance. Another study (Alm and others, 2009), suggests that the services made available to taxpayers may help lessen their uncertainty and lower their costs, prompting an increase in the level of declared taxes and better compliance.

¹For more information on studies of the psychological aspects of taxation in Latin America, see Torgler (2005).

This burden usually comprises three elements. The first is the tax burden of the various levies to be paid by taxpayers in the form of taxes on corporate profits, employees, assets or goods and services.

The second comprises efficiency costs, how they distort the decisions of economic agents and how they induce a decline in social well-being.

And finally there are the operating costs of the tax system: the costs to the government (ultimately paid by taxpayers) of administering and collecting taxes, normally referred to as “administrative costs”, and costs incurred by taxpayers in complying (or sometimes failing to comply) with their tax obligations, commonly known as “compliance costs”.

It is possible to summarize the tax system’s transaction costs as those that must be incurred in order to run the system and comply with its requirements.

Tax transaction costs are thus defined as the sum of the costs to administer the system, or administrative costs, and the costs of having to comply with the system, or tax compliance costs.

A. Administrative costs

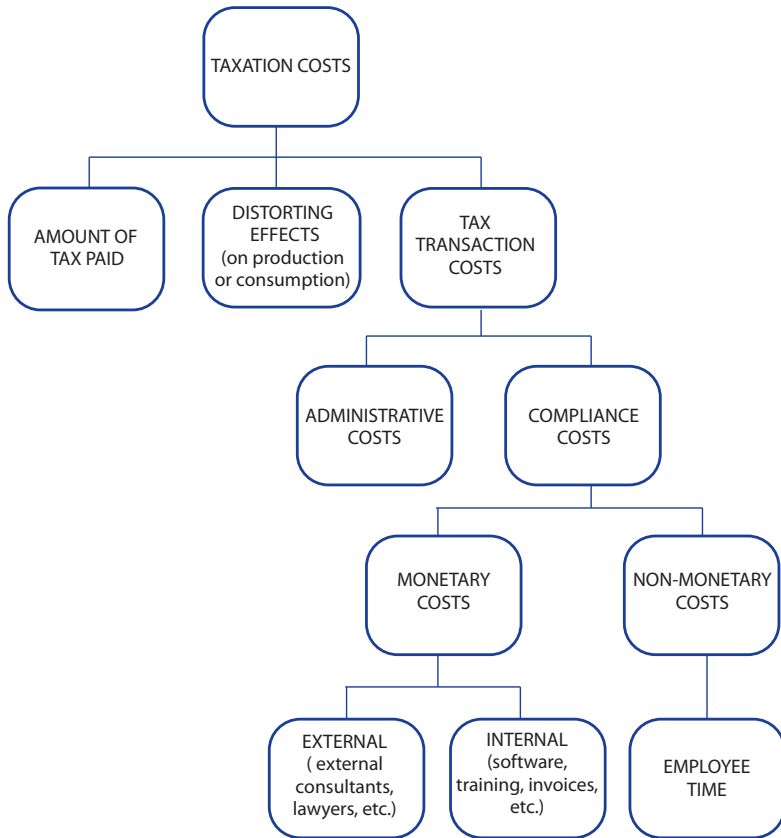
Administrative costs are those that must be incurred by the tax system’s administrator in order to discharge its functions and duties, including: registering taxpayers, carrying out control or auditing programmes, guidance and assistance services, and so on. The costs most commonly considered are the human resources required; the acquisition of furniture, facilities and computer equipment; and the costs incurred in devising means of helping taxpayers to manage their tax obligations.

B. Tax compliance costs

Tax compliance costs are those that taxpayers must meet in order to comply with the tax legislation in force. They include not only the acquisition or hiring of the human resources, material and information technology needed to comply with such legislation, but also the cost of the time spent in obtaining the information, assistance and guidance needed for tax compliance.

Compliance costs can be divided into: (a) measurable/quantifiable economic costs that have a direct impact on taxpayers' income; and (b) non-economic, generally psychological costs, that spring from the need to comply properly with the tax system.

Figure 2:
Tax costs



Source: Pope (1998).

In view of their recurrence, there is an additional categorization regarding administrative and compliance costs:

- (a) **Start-up costs:** These costs arise before the introduction of a new tax or a significant change in a tax. An example is the

acquisition of a new computer system to manage a new tax or new tax obligation, by both those who manage the system and those who must comply with it.

- (b) **Transitional costs:** These are additional costs incurred by those who manage and comply with the tax system during the time that both groups are learning about the new obligations.
- (c) **Ongoing or maintenance costs:** These are the normal costs of maintaining a tax or a tax system.

It should be noted that it would be a mistake to regard the costs of administration and compliance as independent of, or unrelated to, each other.

In this regard, it must be remembered that the goal of tax-system simplicity involves reducing the sum of the two costs and avoiding the danger that one of the cost components (administrative costs, for example) is reduced at the expense of lowering the other (compliance costs, for instance). There is a risk of introducing tax measures that do not minimize transaction costs, and thus it is important to understand each of them independently, to quantify them rigorously and to identify how both may be complemented.

Finally, both costs may vary in line with factors that characterize taxpayers or the tax system — for example, the tax selected for analysis, the size or scale of taxpayers, income level, number of transactions, and so forth.

1.2 Impact of tax transaction costs (TTC) on small and medium taxpayers

From the perspective of someone who complies with the tax system, simplicity is the principle that the system is simple, easy to understand and easy to comply with. A simple tax system involves few taxes applied to a broad tax base — that is, what is taxed (income, consumption, property, and so on) is defined very broadly, without complicated valuation rules; the taxes are stable over time and special cases are not admitted. Administrative simplicity also means limiting “hidden” tax costs.²

²Also defined as TTC, see Sandford (1973).

In that regard, tax systems' lack of simplicity (their complexity) has several negative effects on the economy, including the following:

(a) Higher tax compliance costs

The monetary and non-monetary compliance costs incurred by the taxpayer to comply with the tax system are inefficient because they waste economic resources and generate no economic value for the taxpayer or the State.

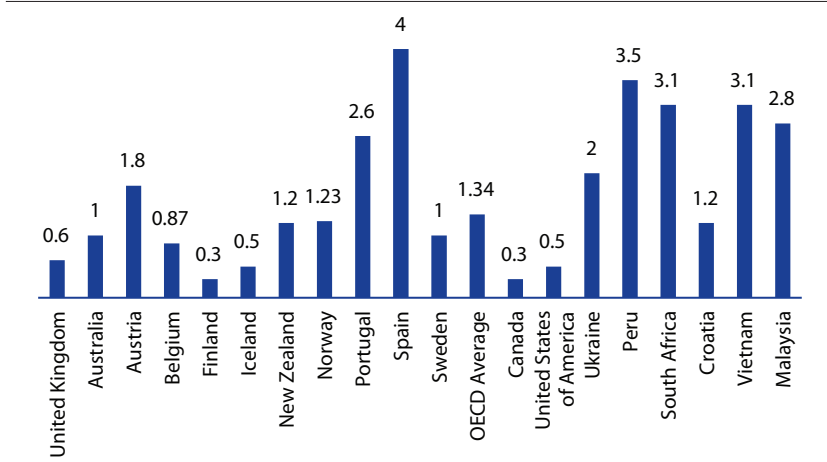
The comparative literature indicates that compliance costs are marked by two characteristics:

- (i) Tax compliance costs are high

Despite methodological limitations, international studies suggest that compliance costs can reach 2.5 per cent of gross domestic product (GDP) (Figure 3) and are usually a multiple (between two and six) of the administrative costs of national tax administrations (NTAs).

Figure 3:
Tax compliance costs

(Percentage of GDP)



Source: Various studies from 1989 to 2011.

It is important to mention that the level of compliance costs tends to vary widely by type of tax. For example, studies show that in

some countries it is usually easier for the NTAs to collect value added tax (VAT), but it requires more transactions for the taxpayer.

In other countries, by contrast, income-tax compliance, though entailing fewer transactions to be declared and paid, tends to be more complex because of the number of exceptions and other considerations that usually prevail, especially in determining the tax base.³

(ii) Tax compliance costs have not fallen over time

Evidence from studies indicates a perception that compliance costs have increased, or at least not to have declined, despite efforts by governments (apparently) through legal reforms designed to reduce the burden on taxpayers (Sandford, 1995; Evans, 2003a).

In Latin America, for example, according to the report *Paying Taxes 2012* by PwC and the World Bank, from 2006 to 2012 the average number of hours taken to comply with the tax system has fallen from 415 to 382 (–6 per cent), but the average for the countries of the Organisation for Economic Co-operation and Development (OECD) has fallen from 235 to 186 hours (–20 per cent).

Greater progress is apparent at the intraregional level: in Argentina, Chile and Colombia, the number of payments and the time required for compliance have been reduced substantially.

There may be two explanations for this. The first is that Latin American TAs have made significant efforts in recent years to improve their control and collection capacity, especially as regards direct taxes such as income and property taxes. As a result, the scope of the information and the level of accounting detail demanded of both businesses and individuals tend to be more complex and extensive.

Another consideration is that Latin American TAs and governments have made efforts to widen the tax base, spurring the emergence of heterodox tax rates that in several countries have increased the number of new taxes and thereby increased the complexity of tax systems.

³For more details on compliance costs by type of tax, see Sandford (1995: pp. 234–350).

Both hypotheses suggest that efforts to increase collection have been limited because of a failure to appreciate the possible negative effects of greater complexity on the level of compliance.

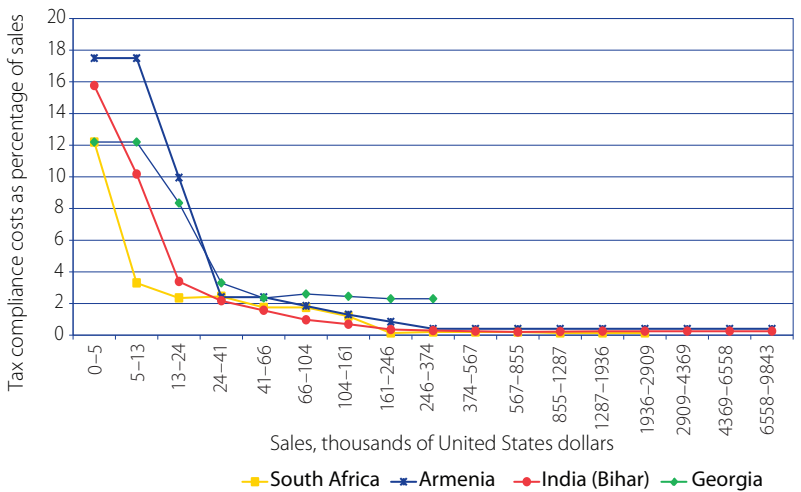
(b) Regressive nature of tax compliance costs

One of the most significant effects of compliance costs is that most of the burden falls heavily on SMEs.

The literature clearly shows the regressive nature of compliance costs in relation to company size. In Australia, for example, it has been shown that compliance costs per dollar of sales in 1994–1995 were 25 times higher for smaller companies (those with annual sales volumes of up to \$100,000) than for their medium-sized counterparts (those with annual sales of between \$100,000 and \$10 million).

Other studies, mainly by the World Bank⁴ for developing and transition countries, show that compliance costs range between 4 and 18 per cent of the sales volumes of small businesses.⁵

Figure 4:
Tax compliance cost by sales volume



Source: Coolidge (2012).

⁴For more details, see Coolidge (2012).

⁵According to the reference study, small businesses are those with less than US \$60,000 in annual sales.

There are two possible reasons for this regressive nature. First, compliance with tax requirements involves significant economies of scale, and small businesses have to bear the high fixed costs of compliance irrespective of whether the activity or transaction that gives rise to the compliance costs occurs only once or seldom. In this connection, there is a learning-curve effect that strongly affects small businesses, which may have to commit resources to identify the tax implications of a transaction only once, compared to a larger business that may be able to write off the learning cost of a large number of similar operations. This consideration also extends to ongoing costs — that is to say, those that have to be assumed permanently.

This particular regressive effect, as with all such, may distort the compliance decisions of small businesses and drive them to the margins of formality in their efforts to lessen the regressive effects of the system.

(c) Effect on productivity and investment

Compliance costs affect productivity and investment in various ways. On the one hand, a high tax burden imposes extra costs on taxpayers, both individuals and businesses. These costs tend to be higher when the business sector is more informal, a circumstance that in turn induces formal-sector companies to seek legal (or not so legal) “alternatives” in an effort to lower their tax burden, thereby spawning more compliance costs that ultimately will give rise to evasion.

The combination of high taxes, high compliance costs and marked levels of tax evasion distorts firms’ investment decisions, reduces market efficiency and prevents governments from investing in essential public services, thereby constraining a society’s productive prospects: an unwelcome vicious circle.

This phenomenon is also more complex in Latin America because the region’s productivity level, measured in total factor productivity,⁶ determines the level of long-term economic growth. The problem of business productivity arises because most companies in

⁶Total factor productivity is a measure of the effect of economies of scale, in which total production increases more than proportionally as each productive factor increases.

the region have fewer than 10 employees, and in all Latin American countries the less productive companies tend to be smaller (Pagés, 2010: p. 205). These circumstances, coupled with the regressive nature of compliance costs, exacerbate the region's productivity conditions.

A related consideration is that the uneven application of tax obligations in large and small businesses affects the behaviour of managers in both types of firms, particularly as regards how they allocate resources.

According to an Inter-American Bank (IDB) study (Pagés, 2010): "If governments centre their efforts on larger and more productive companies, tax evasion becomes a subsidy for the least productive companies and an additional burden on the most productive. From this point of view, tax evasion would reduce average productivity, since competition from informal and evasive enterprises reduces the market share of companies that comply with their tax obligations."

In conclusion, the complexity of a tax system—including its underlying legislation, the tax administration and the tax justice system—may have negative effects on productivity and the level of business investment. This effect could be even greater, inciting a vicious circle of low productivity, informality, high evasion, lack of public investment and low economic growth.

(d) Reducing the tax base and encouraging informality

Informality is a multidimensional phenomenon inasmuch as agents interact with the State in some dimensions and not others, creating a large grey area between the extremes of full compliance and non-compliance with the law.

One analytical approach to informality is akin to the concept of "exit" posited by Hirschman (1970), cited in Perry and others (2009: pp. 24–25): "Many workers, firms and families choose their optimal level of engagement with the mandates and state institutions of the state, depending on their valuation of the net benefits associated with formality and the state's enforcement effort and capability." In other words, they implicitly conduct a cost-benefit analysis of whether to cross the margin into formality, and often decide not to do so. From this standpoint, high levels of informality are a result of a large number

of companies and people choosing not to belong to formal institutions because of the formal system's complexity and the costs of complying with it. This has implications for the principle of simplicity that should be taken into account in the (re)design of any tax system.

Latin American countries have responded by implementing simplified and/or presumptive regimes.

First, these regimes seek to simplify the tax process and lower the cost of the national tax administration. Second, they try to promote formality while increasing control over small taxpayers. Third, they endeavour to reduce the contributions that employers have to make on behalf of their employees, with a view to stimulating employment and extending employment benefits to low-income workers — that is to say, to reduce the costs of formalizing employment. Finally, these systems are designed to help free up resources so that the tax administrations can focus more on monitoring and handling larger companies.

Nonetheless, several studies (Perry and others, 2009; Pagés, 2010: pp. 201 – 240) indicate that the introduction of simplified tax systems for small businesses did increase formalization but also created incentives for those companies to remain small in order to avoid a sharp drop in profitability. Bruhn (2008) and Kaplan, Piedra and Seira (2007) assessed the simplification of business registrations in Mexico (through the Quick Start System for Businesses) and observed very modest effects on reducing informality and somewhat higher (albeit short-term) effects on the creation of new businesses, employment and prices.

Similarly, Ronconi and Colina (2011) examined the simplification of labour registration and the payment of social security contributions in Argentina (called “My Simplification” and “Your Registration”, respectively), and also found only a modest effect on the formalization of existing workers, with some stronger effect on the registration of new workers. By contrast, Pagés (2010) assessed the combined effect of simplifying procedures and reducing taxes in Brazil (through the “Simples” project) and found significant impacts on the formalization of firms.

A study by Chrisney and Oriol Prats (2012), published by the IDB, is of interest as it shows a positive correlation between transaction

costs (measured in hours) and increased informality, with negative effects on the number of SMEs and real labour productivity.

In any case, there is evidence that tax simplification and improving regulatory quality help to reduce informality and improve labour productivity, particularly in SMEs. Such measures, in conjunction with other public policies, may encourage the leap in productivity that the region's informal sector requires.

(e) Higher administrative costs of tax administrations

Compliance costs and administrative costs together comprise the tax system's operating costs. Often, compliance costs and administrative costs move in the same direction. For example, simplification of the tax system is likely to reduce both kinds of costs. Similarly, if a tax system's administrative costs are inefficient, this is likely to result in high compliance costs for taxpayers as they struggle to cope with the consequences of the system's poor management.

It should be noted, however, that administrative costs can sometimes be inversely proportional to compliance costs. In a self-declaration tax system, for example, taxpayers' compliance costs could rise as a result of the reduction of administrative costs.

The costs of tax administrations correspond to their annual operating budgets. In Latin America the overall average has been consistent over time and has even been greatly reduced. Table 1 offers a comparison with OECD countries.

According to the report *Paying Taxes 2012*, it is easier to pay taxes in the region because governments have introduced electronic systems that facilitate tax compliance, and simplified regimes that make voluntary compliance easier for small businesses. These changes have entailed an improvement in the technological capacity and the administrative and human-resource management of TAs without increasing management costs.

The tax systems' complexity and the dynamics of the economy mean that tax management increasingly tends to improve resource optimization. That is why, as good practice, risk management has been incorporated into the internal processes of several Latin American

TAs. That has allowed the authorities to give greater focus to oversight and collection processes, broadening the control base without substantially increasing the administrative costs of public institutions.

Table 1:
Latin America and the OECD: Total expenditure on tax administrations, selected countries, 2009

(Percentage of GDP)

Latin American countries	Ratio Costs/GDP	OECD countries	Ratio Costs/GDP
Argentina	0.629	Germany	0.291
Bolivia	0.124	Australia	0.233
Brazil	0.213	Belgium	0.509
Chile	0.132	Canada	0.286
Colombia	0.134	Denmark	0.345
Costa Rica	0.226	Spain	0.134
Ecuador	0.144	United States	0.083
El Salvador	0.075	France	0.392
Guatemala	0.250	Italy	0.248
Honduras	0.841	Japan	0.147
Mexico	0.078	Netherlands	0.506
Nicaragua	0.218	Portugal	0.258
Peru	0.275	United Kingdom	0.280
Dominican Republic	0.173	Czech Republic	0.222
Uruguay	0.193	Sweden	0.231
Average Latin American countries (15 countries)	0.247	Average OECD (15 countries)	0.278

Source: CIAT (for Latin America) and OECD (2011).

Studies on administrative costs are few. Evans (2003b) found only one study since 1980 on tax administration costs, though other studies focused on compliance costs. One reason is that administrative studies basically address the tax administrations' operating budgets, which in general can account for less than 1 per cent of the tax collected.⁷ Compliance costs, by contrast, can account for between 3

⁷In a conceptual sense, administrative costs generated by the tax system should also include the tax courts' public budgets, but for reasons of simplicity these are not considered in the present study.

and 12 per cent of tax revenues, or up to 4 per cent of GDP, and thus it is of much greater interest to focus on these costs.

It would be a mistake, however, to discount the importance of measuring administrative costs because, as part of the new vision of results-based management in public policymaking, it is crucial to gauge the effectiveness and efficiency of the State's actions in achieving the results. Such an effort requires a new approach to measuring the costs of managing the tax system, an approach that makes it possible to identify the links between activities and concrete results in terms of an improvement in voluntary tax compliance.

(f) The tax system's complexity encourages fraud and corruption

When a tax system is complex it can be rejected by taxpayers, because either they do not understand it and, therefore, consider it arbitrary or simply because in view of its complications they choose not to fulfil their obligations.

Studies,⁸ such as those by Haque and Sahay (1996), Tanzi and Davoodi (1998, 2000), Chand and Moene (2002), and Ghura (2002), find empirical evidence of a negative relationship between corruption and government revenues in less developed countries. Hindriks, Keen and Muthoo (2002) argue that corruption also has regressive effects on the tax system, since more affluent individuals resort to evasion because a large amount of their income is at stake, unlike lower-income individuals who are obliged to pay a smaller share of their earnings as tax.

From this perspective, reducing the tax system's complexity and lowering compliance costs may lead to a decline in fraud and corruption, or at least lessen the incentives to engage in such activities.

(g) Effects on equity and social cohesion

Ironically, taxpayers' compliance costs often stem from a tax policy designed to make the tax system more equitable. For example, employees can deduct their family expenses from their income tax, for which

⁸Cited in Vásconez and Bedoya (2011).

purpose they must submit innumerable reports and tax returns, and must keep the corresponding support documents for a long time. The compliance costs possibly outweigh the tax savings to which these taxpayers have a right.⁹

As noted by Slemrod (2005), “complexity costs tend to increase with income level, but at a less than proportional rate, and so complexity has regressive characteristics”. Additionally, the complexity can be exploited for evasion purposes by those agents who have the necessary information and the means to do so.

Those who devise laws and design tax policy should consider the trade-off between equity and simplicity. Because of the general implications of equity and simplicity, tax systems often have to tolerate some degree of inequity (horizontal or vertical) in the interests of improving the administrative capacities of the tax authority.

1.3 Tax simplification and TTC reduction programmes

The challenge for governments is to balance their need to use administrative regulations (as a source of information and as a tool for the implementation of public policies) against the need to minimize their interference and the costs that would be imposed on private activities.

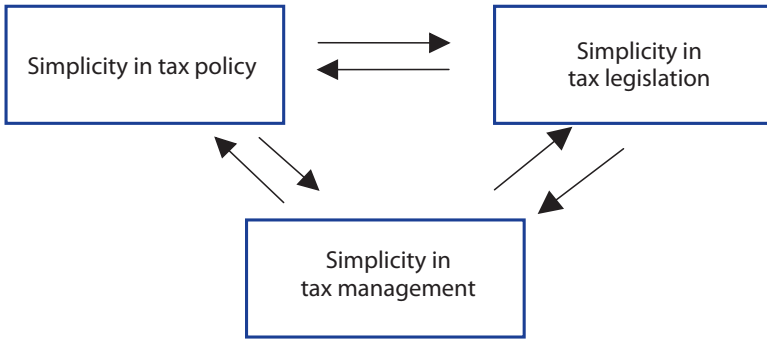
Establishing this balance is more complex in the tax field because the national tax authorities also have to impose the tax system on those who do not want to comply, while helping those who do. In these circumstances, when it is difficult to identify taxpayers’ conduct clearly, there is a temptation to increase the complexity of the tax system as a whole.

There are different ways of implementing reforms geared to simplification. There is no single model that can be applied everywhere. Administrative simplification can take an ad hoc approach that focuses on one sector or a much broader and long-term approach.

⁹An example is the creation of companies by individuals with the sole purpose of paying less in tax, when company tax is more favourable than personal tax. In this case, people devote resources to set up and maintain companies without any productive purpose in the economic sense.

Simplification is more complicated in the tax realm because of the areas covered. According to Barra (2006), a tax system’s simplicity is evident in three areas or phases: simplicity in tax policy, simplicity in tax legislation and simplicity in tax management.

Figure 5:
Simplicity of the tax system: An overall view



The basic determinant of whether a tax system is simple or complex is the tax policy design. The choice of tax instruments, and of those segments to be taxed and those to be exempted, implicitly determines the choice of a greater or lesser theoretical simplicity.

Next, the design must be written into a law. This process results in a second troubling phase for simplicity. The tax legislation must be sufficiently explicit and precise to meet the goals of tax policy, and often that cannot be achieved in a simple and concise legislative drafting.

The third area that determines the simplicity of the tax system is tax management. The simplicity of the new tax system is at risk again in this phase, since implementation of the tax law necessarily requires a system to administer and enforce that law.

Latin America has been very active in improving tax policy, legislation and management in an effort to simplify the tax system, expand the tax base and lower transaction costs. The outcomes have been uneven, however, and often there is very little information about

taxpayers' perceptions of such reforms in countries of the region. That is why the exchange of experiences, as well as dissemination of measurement and standardization methodologies and of best simplification practices, can be very useful tools for the various administrations seeking to improve their effectiveness.

Table 2:
Reforms geared to simplification and reduction of TTCs

Tax policy	Tax legislation	Tax management
Reduction in the number and type of taxes	Stability of tax laws	Simplicity in the organizational structure
Taxes simplicity (such as the number of rates)	Extent of tax laws	Simplification, standardization and automation of taxpayer life-cycle processes
Number of changes in the tax structure	Clarity of the regulatory regime and simple consultation processes	Focusing on control and examination processes (risk management)
	Judicial claim costs reduction	Simplicity in administrative claims processes
	Consistency between norms at different levels of the hierarchy	Information, assistance and compliance facilitation tools

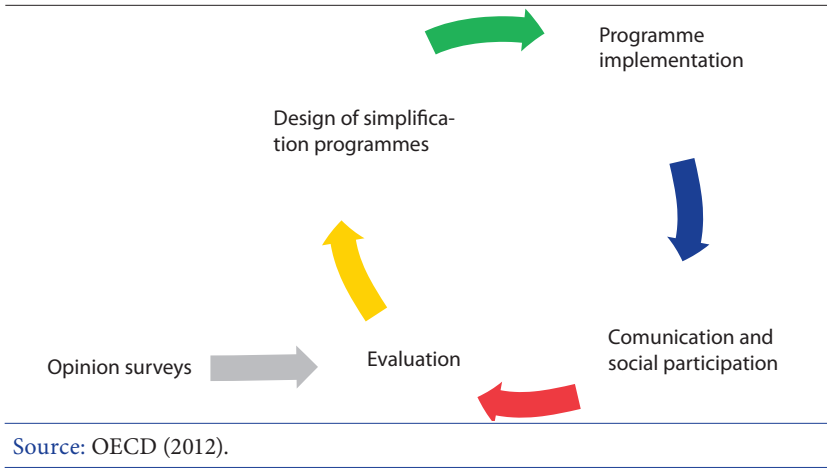
Source: Barra (2006).

Another important factor that should be considered in a regulatory simplification programme is to promote assessment of its effectiveness (OECD, 2012). Figure 6 presents the cycle of a simplification policy, showing the relationship between programme design, programme implementation, communication and assessment. In this diagram, according to its source (OECD, 2012): “the aims of the reforms are communicated to stakeholders. The quality and results of regulatory programmes are then evaluated and the results of the evaluation should feed back into the subsequent design and implementation of regulatory programmes and communication strategies.”

In this methodological framework, it is crucial to rely on primary-source information—that is to say, a source that directly reports public opinions and perceptions of the public—because that

allows the authorities to understand public perceptions of the regulatory environment and the benefits of regulatory reforms. Positive perceptions and stakeholder support are crucial to the success of regulatory reform, largely because perceptions of the quality of regulation can influence companies' investment decisions and their compliance with regulatory requirements.

Figure 6:
Regulatory reform policy cycle



Source: OECD (2012).

According to the OECD (2012), perception surveys can serve three main purposes:

- (a) To evaluate the success of a reform programme from a user's perspective;
- (b) As a diagnostic and communication tool, to identify areas of concern to taxpayers and businesses, and thus inform future regulatory reform; and
- (c) To obtain information on taxpayers' and businesses' levels of awareness, confidence, interest and recognition of regulatory obligations, regulatory reform programmes and regulatory bodies.

In the tax area, the use of identification and measurement tools based on taxpayer surveys can be very useful in the design phase of a legal or administrative reform of the tax system.

Chapter II

Measuring tax transaction costs

2.1 General considerations of measurement methodology

Over recent years, many and varied methodologies have been designed to estimate tax transaction costs (TTC). Their main purpose has been to identify which factors create the greatest burden of external costs for the taxpayer and the tax administration in, respectively, complying with and enforcing compliance with the tax system. These efforts have also sought to design specific strategies geared to a constant reduction in tax transaction costs.

With a view to providing the tax authorities with a methodology that can be easily applied to measuring transaction costs, this study presents one such methodology that pays particular attention to small and medium taxpayers. The analytical tools and data-gathering methodologies take account of the particular characteristics of this segment of taxpayers. The focus on them stems from the fact that they incur the greater proportion of these costs — that is to say, they bear a greater relative burden than larger taxpayers.

As mentioned earlier, tax transaction costs comprise the costs of managing the tax system (administrative costs) and the costs of having to comply with it (compliance costs), as represented below.

Tax transaction costs consist of:

$$\text{TTC} = \text{CC} + \text{AC}$$

Where:

TTC = tax transaction costs

CC = compliance costs to the taxpayer

AC = administrative costs of the NTA.

The methodology for measuring each of the components will be developed in detail in the following sections.

2.1.1 General measurement procedure

The process of measuring TTCs consists of a series of phases, as described below.

0. **Start-up phase:** This phase consists of identifying the object of analysis — that is to say, the general context of the tax system, the legal framework for taxation, the level of institutional maturity and the main processes related to the taxes under analysis.
1. **Preparatory phase:** This phase involves identifying the resources needed to implement the study. The main components are an NTA's technical team, duly trained to recognize the different components of the tax processes, those both internal and external to the institution. Another important component is an appropriate budget for external surveys or interviews to be conducted by an external company.
2. **Analysis phase:** This phase involves identifying, within each regulation or procedure, the taxpayer's obligations to provide information, clearly specifying the origin of such obligations in line with the characterization of a direct or indirect cost for the taxpayer or an administrative cost for the NTA. This phase also entails determining two concepts necessary for measurement: the target group of small and medium enterprises (SME) taxpayers and the frequency of compliance with tax obligations.
3. **Measurement phase:** The aim of this phase is to obtain data on the time spent and costs incurred by both the NTA and SME taxpayers. It has two components. The first consists of measuring the compliance costs incurred by taxpayers, which are obtained from surveys. Details of this are included in section 2.2 below. The second component requires information on the TAs' administrative costs. That information is transformed and analysed in the way shown in section 2.3 below.
4. **Report phase:** With the calculations performed in the previous phase and using the formulas described, the TTCs are determined and on that basis a strategy of cost reduction and administrative simplification can be inferred and designed.

Phases and steps in the standard model for measuring TTCs in SMEs

Phase 0. Start-up		
Identifying the general context; detailed understanding of the regulatory and administrative framework of the tax(es) to be analysed. It is important to understand the institutional framework, procedural maturity and political support for a possible reform geared to tax simplification.		
Phase 1. Preparatory		
Defining the undertaking’s financial resources and training the local technical team. In this phase it is important to analyse the financial viability of hiring an external organization to conduct the survey, as well as the quality of the internal information that will allow the TTCs to be determined.		
Phase 2. Analysis		
	Step 1	Identifying the information obligations, requirements and tax transactions, as well as the TAs’ main internal indicators on the tax cycle
	Step 2	Identifying the regulations relating to taxes and procedures
	Step 3	Identifying the segments of companies relevant to the study
	Step 4	Identifying the target group and transaction frequency
	Step 5	Identifying related regulations
Phase 3. Measurement		
	Step 6	Measuring compliance costs
	Step 7	Measuring administrative costs
Phase 4. Reports		
	Step 8	National-level extrapolation of the data obtained
	Step 9	Final results report and determination of the simplification plan

2.1.2 Definition of micro, small and medium enterprises (MSME)

As this study focuses on small and medium taxpayers, a clear definition of them is required.

In all economies there is a group of economic actors whose characteristics make them a special challenge for NTAs and the State as a whole; this is the small business segment.

For public-policy purposes in general, and for tax management in particular, these actors have to be defined clearly. They can be classified in line with the following considerations:

- Economic size or significance
- Economic activity.

As regards economic size, economic actors in general and taxpayers in particular can be classified into three categories:

- Small
- Medium
- Large.

According to González (2009), small taxpayers have the following characteristics:

- They are many in number
- Most of them have a modest level of education
- They have a low or inadequate level of organization
- It is very difficult to impose stringent accounting practices on them
- They have a high rate of turnover: many of them disappear shortly after being set up
- They tend to operate in the informal economy.

The proposed methodology aims to measure tax transaction costs, with particular attention to small and medium taxpayers, given their potential role in Latin American economies as a source of employment and economic development. Their importance in this regard warrants giving them special treatment in tax systems, which several studies have found often impose regressive tax costs on SMEs.

It is not simple, however, to find a clear notion of taxpayer “size”, and so technically various definitions of SMEs can be found. They vary according to the field of study, whether it be analysis of taxation, legal norms, finance, export promotion or something else; in other words, according to the problem that is to be solved. This study does not seek to establish a definition because it can vary by country,

and the characterization of a formal small and medium enterprise in the tax registry will have a different purpose that accords with each country's own policy guidelines.

Nonetheless, for the purposes of applying the methodology now proposed, this study takes as a reference point the definition of SMEs as an enterprise in the productive sense (European Commission, 2005). Hence, a business is defined as any entity engaged in an economic activity regardless of its legal standing.

Latin American countries, and their NTAs in particular, have used different criteria to categorize SMEs, depending on the goal of each country's economic and fiscal policy, essentially their structural characteristics. Once the SMEs have been categorized, each country has used various mechanisms to promote and/or strengthen them, including incentives and special regimes that do not burden them with too many requirements or formalities (facilitation), and that entail a lower tax burden than the one borne by other taxpayers.

Developed countries use criteria that are not much different from those used in Latin America, though given the size of those countries' economies, income or sales levels are much higher. For example, what the European Commission considers to be microbusinesses in the countries of the European Union (EU) are considered small businesses in Latin America.

Considering the experience of Latin American countries, two variables are commonly used to define SMEs or small taxpayers: the level of annual sales and the number of workers.

For the purposes of the present study, it is recommended considering the characterization used in Table 6, which defines SMEs as those production units with fewer than 200 employees and annual sales of less than US \$5 million: small enterprises, up to 50 employees and up to US \$2 million in sales; and microenterprises, fewer than 10 employees and sales of less than US \$100,000.

Table 3:
Definitions of businesses in Latin America

Country	Criteria	Microenterprise	Small business	Medium business	Large business
Argentina ^a	Sales	Up to 0.5	Up to 3	Up to 24	More than 24
Bolivia ^b	Number of workers	Up to 10	Up to 19	Up to 49	More than 49
Chile ^c	Sales	Up to 2,400	Up to 25,000	Up to 100,000	More than 100,000
Colombia ^d	Number of workers	Up to 10	Up to 50	Up to 200	More than 200
Costa Rica ^e	Number of workers	Up to 10	Up to 30	Up to 100	More than 100
El Salvador ^f	Number of workers	Up to 4	Up to 49	Up to 99	More than 99
Guatemala ^g	Number of workers	Up to 10	Up to 25	Up to 60	More than 60
Mexico ^h	Number of workers	Up to 30	Up to 100	Up to 500	More than 500
Panama ⁱ	Income	Up to 150,000	Up to 1 million	Up to 2.5 million	More than 2.5 million
Venezuela ^j	Number of workers	Up to 16	Up to 50	Up to 100	More than 100

Source: Zevallos (2006).

^aIn millions of pesos. Definition for manufacturing. There are others for trade and services, as well as by annual sales.

^bThere are various criteria: for example, by sales and assets. But the official definition is based on employment.

^cIn development units (unidades de fomento, UF). A UF is approximately US \$24. There is also another definition, by employment.

^dThere are two definitions: by employment and assets.

^eThere are other definitions: by investment and annual sales.

^fOfficial definitions are by employment and assets (National Commission of Micro and Small Enterprises, CONAMYPE).

^gDefinition of the National Statistics Institute. There are two more, by the Chamber of Commerce and by Promicro (they are all based on employment).

^hDefinition for manufacturing. There are others for commerce and services, also based on employment.

ⁱIn balboas or United States dollars (one to one parity).

^jDefinition only for manufacturing. There are no definitions for commerce or services.

Table 4:
Definition of SMEs in the European Union

Criteria	Microbusiness	Small business	Medium business
Workers	Up to 10	Up to 50	Up to 250
Incomes	Up to 2 million euros	Up to 10 million euros	Up to 50 million euros
Total balance	Up to 2 million euros	Up to 10 million euros	Up to 43 million euros

Source: European Commission (2005).

Table 5:
Definition of SMEs for NTAs

Country	Number of workers (<)	Sales volume (United States dollars)
Argentina	–	7 805 907
Ecuador	199	5 000 000
Chile	200	4 805 920
Peru	100	2 288 462
Uruguay	99	5 000 000

Source: Websites of the NTAs.

Table 6:
Definition of SMEs: Methodology for measuring transaction costs

Criteria	Microbusiness	Small business	Medium business
Number of workers	Up to 10	Up to 50	Up to 200
Annual sales	Up to US \$100,000	Up to US \$2 million	Up to US \$5 million

2.2 Measuring compliance costs (CC)

The tax compliance cost component can be expressed as follows:

$$CC = IC + EC$$

Where:

CC = taxpayer's compliance cost

IC = internal costs

EC = external costs.

The compliance cost is the sum of the internal and external costs. Internal costs include both labour and non-labour costs.

For the purposes of this study, direct labour costs are those incurred when a business uses its own resources, such as its employees, who receive payment for their work related to the company's compliance with its tax obligations. Internal costs also include additional non-labour costs incurred by the business.

External costs are defined as those paid by a business to third parties in order to comply with its tax obligations. The commissioning of third parties presumes a charge or payment for the service rendered.

2.2.1 Internal costs (IC)

One of the main difficulties in measuring compliance costs is determining the time (hours per month) that taxpayers spend on complying with their tax obligations. The task of converting time into monetary values depends on the accurate estimate of the number of hours worked and the value assigned to each hour.

As internal costs are a result of work undertaken by a business's internal staff, they are calculated according to the time spent on the tasks required for tax compliance. Thus, internal costs are expressed as follows:

$$IC = T_A * V_A + AS$$

Where:

IC = internal costs

T_A = time

V_A = value of time

AS = administrative spending.

Internal costs are the sum of the average monthly hours spent on activities (T_A) related to tax obligations, multiplied by the unit value paid to the resource (V_A).

Internal costs also include all non-labour administrative spending (AS), such as transport, training, printing documents, storage of accounting records, information-technology expenses, and so on.

Time calculation (T_A)

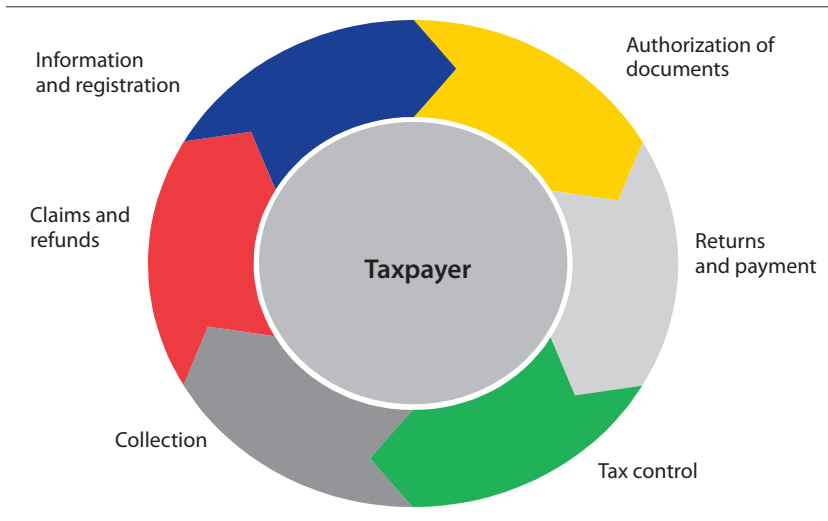
One of the important components is the valuation of the time that the taxpayer spends on tax compliance. For this, it is important to consider the nature of the tax obligations as they can be classified as monthly, quarterly, annual or, in some way, exceptional compliance activities, and this factor influences the workload within businesses.

In this regard, adequate time measurement should consider each of the transactions included in the taxpayer's full cycle, multiplied by the number of times that the taxpayer has to make each transaction in a given period.

A widely-used tool is the TA's process of mapping the value chain. The aim is to determine the taxpayer's cycle, identifying in each of the macro processes those major transactions that generate external costs to the taxpayer.

Figure 7 offers an overview of the taxpayer cycle. It may be adjusted according to the authority, responsibilities and processes of each tax administration.

Figure 7:
Taxpayers' cycle



(a) Information and registration

This is the registration of a business with the national tax administration. This process should occur only once and involve all costs related to complying with pre-registration obligations, gathering information, submitting forms, and so on. It should also cover the time spent on travelling to the NTA or Internet use in the case of virtual access. It further includes the cost associated with accessing general information on the tax system, before or after registration.

(b) Authorization of documents

This process is related to the registration of, or permission to use, receipts or accounting documents required in the tax system. It is usually a periodic process. It includes all the time spent on gathering information and delivering it to the NTA, as well as time spent on approving and printing accounting documents, such as invoices, accounting records, withholdings, and so on.

(c) Returns and payment

This is the periodic process of presenting information required by the NTA, and varies according to the type of tax or information to be submitted. It includes gathering information and submitting it via printed or online forms.

Payment may be made using physical or online means and can be recurrent, depending on the tax. The process of payment may also include the provision of information on other taxes and in those cases it is regarded as a single activity.

(d) Tax control

Mass or intensive control processes consist of a series of procedures that may involve the time of the NTA's staff. These processes can be periodic or otherwise, depending on the characteristics of each NTA and the taxpayer's profile. They include the time spent on preparing information and that spent by a staff member of the business to meet the requirements of the NTA, either face-to-face or by other means (interviews, telephone calls, and so on).

(e) Enforced collection

Enforced collection begins when a tax liability is generated — that is to say, when the payment was not made within the time specified in the regulations. Collection processes can be aggregated into two large groups, depending on whether it is an administrative or judicial phase.

(f) Claims and refunds

The claim is a process that starts with a taxpayer’s information request or formal claim to an NTA. This process includes collecting information, preparing documentation, as the case may be, and the time that NTA officials spend monitoring the procedure. A claim process may involve voluntary payment or enforced collection by the NTA.

Refunds, unlike the other processes outlined here, confer a benefit on the the taxpayer. The process includes gathering information, time spent preparing the request, and obtaining internal or external advice, as the case may be.

Thus, a matrix of activities—time (hours per transaction—activity) throughout the taxpayer’s cycle—can be devised that clearly identifies the times that each transaction is undertaken in a year. Monthly activities (A) are extrapolated from annual figures, while one-time activities (B) and exceptional activities (C) are counted within the annual period under study.

The information is gathered using a survey in which taxpayers are asked to indicate the time they allot to each of these activities.

Table 7:
Time matrix (transaction hours) in the taxpayer’s cycle

Activities	Monthly activities (A)	One-time activities (B)	Exceptional activities (C)
Information and registration		T_{B1}	
Document authorization			T_{C1}
Returns and payment	T_{A1}		
Tax control			T_{C2}
Collection			T_{C3}
Claims and refunds			T_{C4}
Total	T_A	T_B	T_C

Calculating the monetary value of time (V_A)

The monetary valuation of time is directly related to the opportunity cost the individual faces in being unable to perform other tasks that may or may not be profitable. There are two ways of acquiring this information, as follows:

- Direct source: The person performing the tasks can be consulted directly.
- Official statistics: If the above information is unavailable, a value according to official data on salaries can be estimated — for example, the average monthly salary of a professional accountant.

The first source has the disadvantage of relying on the respondent's own judgement, and this might entail a bias to overestimate the opportunity cost. Additionally, the levels of dispersion involved in extrapolating the sample to the entire population could distort the analysis. Hence, the use of official statistics is recommended as a way of standardizing the variable.

The value of external assistance is more interesting but is probably much more difficult to estimate. Typically, companies with fewer resources (microentrepreneurs) seek support, usually unpaid, from acquaintances, friends and family members who provide tax advice. This option is useful in avoiding the costs associated with private consultancies. In this case, the estimate is less precise because there is no market salary rate for this type of service. In such a situation, and if the businesses being consulted do not differ significantly in size, the average monthly salary of a non-professional employee performing administrative tasks can be used as a reference.

For the purposes of this study, the definition of the value of time based on the average hourly wage before taxes was adopted. The pre-tax wage was used because it is closer to the payment that a business has to make for paid work related to tax compliance activities. This variable may be obtained from official national statistics.

The monetary value of time can be summarized as follows:

$$V_A = \text{Average pre-tax hourly wage}$$

Calculating administrative spending (AS)

Internal costs also include additional values, such as:

- Printing documents (invoices, receipts, and so on)
- Physical storage
- Information technology (IT) costs
- Training
- Transport, and so on.

Tax compliance costs refer to the time, money and effort that the taxpayer has to expend in order to comply with regulations. Some activities performed within a company are not considered in the definition, such as:

- Administrative collection
- Payment of suppliers' invoices
- Dealing with banks
- Cash flow estimates
- Cash receipt, and so on.

It should be noted that this component requires identifying the so-called “hidden costs”. These are all the costs that are not likely to be identified but that often account for the bulk of internal costs.

2.2.2 External costs (EC)

External costs are those incurred by the taxpayer when outsourcing certain activities necessary for tax compliance. Hence, they have been defined as those that involve taxpayer spending on tax advisers or accounting professionals who are needed to comply with tax obligations.

Such costs include those that companies pay for external advice on tax compliance. Depending on the size of the taxpayer, they range from fixed monthly payments covering all necessary tax advice to one-off payments for specific activities, such as handling a refund request.

A common payment method for certain activities or procedures required by an NTA in some countries is called a success bonus, whereby the taxpayer offers a share of the benefit derived from a successful outcome (usually, this also includes handling the bureaucratic processing). This method is common in processing tax returns. For the purposes of this study, such payments are considered as external costs.

Another type of cost is related to accounting. While accounting is a sunk cost, as it is not only for used tax compliance, it is included so as to identify the specific compliance costs it imposes on taxpayers. If a company's own staff handle the accounting internally, these costs are considered internal costs. But if the accounting is handled by individuals or firms external to the company (such as external advisers, a common phenomenon in the field of microenterprise), it has been considered as an external cost for which the company pays a fixed monthly amount.

This category may also include other external costs, such as the storage of accounting records and external documents, among others.

External costs can be summarized as follows:

$$EC = \text{spending on external tax adviser/accountant} + \text{other expenses}$$

2.2.3 Information collection procedures and estimating compliance costs

Gathering information is a key element in the findings of a tax compliance study. Most international experiences and best practices have extended the use of surveys and interviews as a mean of finding empirical evidence of compliance costs directly from taxpayers.

Gathering information through surveys, however, has several limitations, two of which are highlighted as follows. First, a survey is a closer reflection of perceptions than of reality, and therefore an appropriate structure of questions is needed to help lessen this constraint. Second, any survey's validity depends on the contextual factors surrounding how it was carried out and, thus, it is important to consider a duly extensive implementation period and to ensure that the market research contractor has sufficient technical expertise in conducting surveys.

The annex to Part One of this study provides a standard survey that may be taken as a reference point for the development of a survey in each country of the region.

Types of surveys

The following are alternatives to the standard survey mentioned above to gather information from taxpayers:

- Focus groups
- Face-to-face surveys
- Surveys by mail, in which the questionnaire is sent to probable respondents and they are given time to complete it and send it to the NTA
- Virtual surveys, involving making the questionnaire available online.

No method is without limitations or disadvantages relative to the others. The aim is to minimize risk and to reach conclusions that help to measure the object of study.

For the best results, therefore, the recommended method consists of face-to-face surveys or focus groups. In other circumstances, the preferred option would be postal surveys, combined with face-to-interviews in specific cases, but of course that depends on the reliability of this type of survey — that is to say, how much experience the country has in handling that means of communication.

The information-collection procedures recommended by this study are surveys based on face-to-face interviews or focus groups. These have the advantage of being controlled and guided by the interviewer, and they also provide more information than other means (for instance, questionnaires and telephone calls). They have the disadvantage of the time and cost of implementation, as well as a probable bias on the part of the pollster towards finding expected answers. Hence, it is important to keep the questionnaire design closely related to the method used for data collection and to the subject being surveyed.

Another possible method is to use postal surveys. The questionnaire is sent to probable respondents and they are given some time to complete it and return it directly to the NTA. This method has the

advantages of a high level of honesty in responses and of being inexpensive. It has the disadvantage that the response rate is usually quite low and therefore there is loss of representation.

Table 8:
Survey types: Advantages and disadvantages

	Advantages	Disadvantages
Focus groups	Guided and controlled by the interviewer Fast implementation Provides a qualitative understanding of the underlying reasons and motivations	Limited representation can cause bias Qualitative. Data analysis is not statistical
Face-to-face interviews	Usually acquires more information than by other means Easy implementation of segmentation strategies (sectoral or informal) Quantifies the data and generalizes the sample results to the target group	Time and cost of implementation Probable bias by interviewer seeking expected responses
Postal surveys	Responses tend to be very honest Mid-range cost More information acquired because they can be longer	Response rate is typically quite low Loss of representation can give rise to biases or poor-quality information
Online surveys	Wide-coverage response time Fast implementation Low cost	Not always possible to verify the subject's identity, or the subject might be biased Loss of representation can give rise to biases or poor-quality information Shorter duration of the survey

Finally, given technological progress, online surveys are possible and the questionnaire can be placed on the Internet. Its advantages are wide coverage, response time and low cost. Its limitations are potential bias because respondents do not necessarily comprise a representative sample of the population, and the response rate is generally low — giving rise to biases and poor-quality information.

The NTA should take an active part in decisions about the methodology, because if the target population and sample are randomly selected, tax information might shed greater light on the subject under study. It is important to take account of the particular nature of that subject, SMEs, which makes it more complex to choose the best methodology for data collection.

In the initial stage of implementation, therefore, it is important to specify who will be responsible for this task. It is advisable to use a company that specializes in collecting information. Since NTA budgets are in many cases limited, however, alternatives for handling the survey within the NTA can be chosen, following the recommendations in this study.

The advantage of using a polling firm is that such companies might obtain better-quality results, given their expertise and experience in these kinds of projects. The polling company may revise the survey and contribute to its form, substance and depth. Moreover, response rates could be better, given the monitoring tools that these firms have, and for all the foregoing reasons the implementation time could be shortened.

The detailed steps of measuring compliance costs are described below.

(a) Step 1: Preliminary activities

The NTA should establish a team that includes at least the following three persons:

- One (1) project chief; and
- Two (2) tax specialists, at least, preferably individuals who manage tax processes.

The team would have the following responsibilities:

- Conduct a survey of the legal and procedural framework of tax administration processes that taxpayers comply with (process mapping);
- Identify the points in the taxpayer cycle that could be the most critical or most interesting for analysis and understanding;
- Adapt the standard survey to the real nature of regulations and procedures in the NTA's country;
- Coordinate the necessary steps to carry out and monitor the survey with other sections of the NTA. If the survey is outsourced, the team members should be responsible for monitoring execution and ensuring that deliverables are submitted in line with initial specifications;
- Devise a way of launching the study that ensures a high level of commitment on the part of participants;
- Identify possible problems during the survey's execution and take corrective action;
- Analyse the findings;
- Calculate the compliance costs.

(b) Step 2: Regulatory analysis

At this stage, the team should gather together all the tax-related and non-tax legislation affecting SMEs in the country. This would serve as a basis such that, as a result of the implementation of this methodology, improvements can be made not only to tax legislation but also to the framework legislation governing SMEs. A document summarizing the regulations affecting this segment of taxpayers should be prepared.

(c) Step 3: Process analysis

At this stage, the team should identify the tax-related processes affecting SMEs. These processes are understood as the set of interrelated activities and resources that transform inputs into outputs, adding value to the taxpayer or the NTA official. This methodology presents several generic macro processes that can be used as a baseline for the analysis.

In this phase, the team should collect the following information:

- Define macro processes;
- Identify sub-processes related to the tax(es) paid by SMEs;
- Undertake process mapping. The NTA should adopt a design that best fits the tax system;
- Identify activities that involve the taxpayer, and determine the requirements, information demands and tax obligations. This information is important for the questionnaire design;
- Valuate the sequence of steps that the taxpayer takes to perform the activity.

(d) Step 4: Preparing the questionnaire

The annex to Part One of this study offers a template that can be taken as a reference in developing a survey for each country. Consideration should be given to reviewing the taxpayer's basic processes and adapting the survey to local conditions, ensuring that it covers all the sub-processes identified in the previous step. Moreover, care should be taken over the terminology used. It is possible to broaden the scope of a study by adding more questions, but this must be considered carefully because the taxpayer might react negatively to a very long survey. It is suggested that the maximum time required to complete the survey should be 20-30 minutes, and this will depend on the chosen approach to collecting the information.

The survey must be anonymous so that the findings are accurate. It is further suggested that the survey be tested with actual taxpayers; this step would give greater support and validity to previously designed questions.

An alternative approach to the questionnaire design is to work directly with the "accounting intermediaries", who can recommend how to identify the main requirements and tax obligations, particularly in countries where it is very common to outsource services.

(e) Step 5: Sample selection

Identification of the target population is the basis for determining how to choose a survey sample. The sample selection method depends on the availability or absence of population records, such as telephone or address listings.

To improve the sample design, it is suggested using the registry information or database records of the NTA. The criteria used from the SME registry¹⁰ consider the taxpayer's sales, employees, management and basic data. The taxpayer may also be subject to VAT, income tax or a simplified tax regime.

There are two types of designs for the sample: probability sampling and non-probability sampling. Probability samples, using random selection and based on probability theory, allow population statistics to be calculated with a known degree of reliability. Non-probability sampling data are not necessarily representative of the entire population.

Probability schemes include simple random sampling, systematic, stratified, multistage and random path, among others. Non-probability sampling techniques include intentional, accidental and convenience samples, and cross-sectional and longitudinal designs.¹¹

To establish the sample value, it is suggested that any type of probability sampling framework can be used.¹²

The probability model most widely used is simple sampling, whose formula for determining the minimum sample size is:

$$N = \frac{P \cdot \alpha^2 \cdot Z^2}{(P-1) \cdot e^2 + \alpha^2 \cdot Z^2}$$

Where:

N = sample value

P = number of defined taxpayers among the ranks of SMEs

α = standard deviation of the population (suggested 0.5)

Z = confidence level (95 per cent)

e = acceptable limit of error (3 per cent).

¹⁰According to the definition of each country; otherwise the definition provided in the present methodology should be used.

¹¹For more information on sampling frameworks, see Willeboordse (1997).

¹²Another alternative is stratified random sampling, combining the simplicity of random sampling with a more precise approach. Sampling error declines because the samples are selected from population subsets with uniform and relevant characteristics.

It is important to consider the rates of rejection and non-response, as well as other reasons for not completing the survey, so the suggested sampling factor is 1.3 times the desired sample size.

(f) Step 6: Launching and monitoring

This step is essential to achieving the highest level of response from taxpayers, so as to meet the minimum sample size. Understanding the idiosyncratic nature of the participants is conducive to identifying business associations and groups that can act as a channel of communication with taxpayers and thus support enhanced prior socialization of the measurement project.

If the survey is conducted by post, e-mail or a mix, taxpayers should be invited to participate via actual letters addressed to the general manager or accountant, and should include the following:

- An invitation to participate in the survey, indicating the scope and benefits of the project and perhaps suggesting incentives such as specialized training by the NTA in the seminar/workshop organized as part of the process;
- An explanation of the survey's goals, as well as the NTA's commitment to present its results at a later time.

The team should monitor the number of surveys processed and, if necessary, send reminders during the time set for completing the surveys if a low response rate is projected.

(g) Step 7: Results analysis

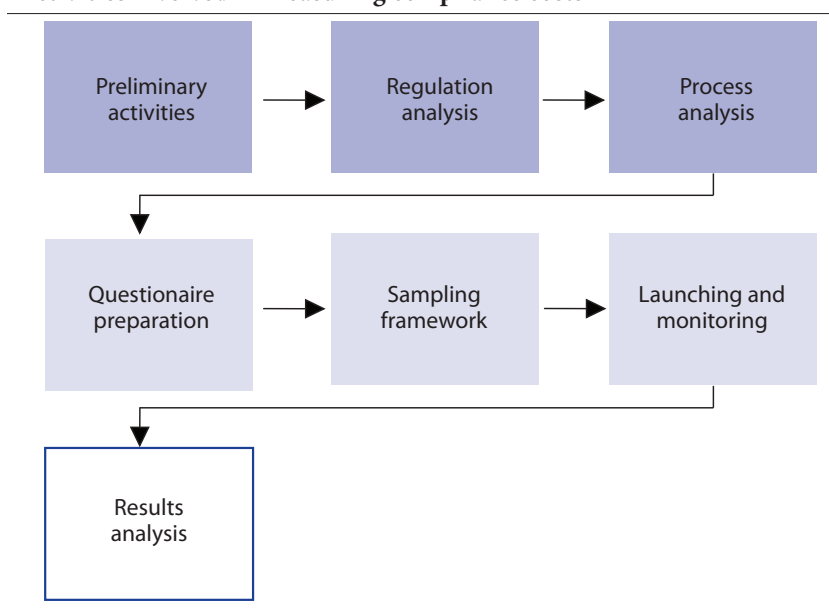
Once the surveys are completed, the process of analysing the data to calculate compliance costs for SMEs should begin. The team must undertake this task with the tools that the NTA has available to conduct the analysis.

The following activities would take place at this stage:

- (i) Verifying the integrity of the survey data. It is suggested that the accuracy of the information should be verified on a random basis;
- (ii) Calculating the mean and median for each question in order to analyse the deviations and the accuracy of the answers;

- (iii) Transposing the monthly variables to annual themes. Means and medians should be used and extrapolated to yearly periods;
- (iv) Extrapolating to the entire population, using the information on the group obtained, to calculate the sample or the expansion factors;
- (v) Incorporating the variable of average pre-tax salary;
- (vi) Calculating the compliance costs by level or in relative terms (to sales or to GDP, and so on).

Figure 8:
Activities involved in measuring compliance costs



2.3 Measuring administrative costs

Administrative costs (AC) are a component of tax transaction costs, and thus it is crucial to estimate their total value and understand how they are distributed in taxpayers' various management processes.

The aim of this section is to identify administrative costs in disaggregated form throughout the taxpayer's cycle and for all the taxes overseen.

Other related objectives are:

- (a) To consider the scale of administrative costs within total tax transaction costs;
- (b) To estimate which NTA processes account for most of the administrative costs;
- (c) To allow policymakers and the NTA to identify which administrative costs may be reassigned, reduced or increased in line with the taxpayer's cycle.

To understand what administrative costs are and how to measure them in the NTAs, it is important to have an understanding of the legal status, powers and functions of NTAs and the organizational level on which the operating budget of each institution is distributed.

In the past decade, institutional reforms in the tax field have allowed most of the world's NTAs, and particularly those in Latin America, to enjoy higher levels of budgetary autonomy and flexibility in their resource management processes, in many cases independently of the rest of the public administration.¹³

As part of this autonomy, the financing model for NTAs usually considers a fixed percentage of the level of taxes they oversee. This budgetary scheme has its own features in different countries, as there is also a trend towards greater control of budgets and results management in the NTA. This trend has led even to zero-based budgeting or project management budgets, such that in many cases an NTA has returned non-executed budget resources.

The second consideration regarding the measurement of the budgets of NTAs is that the funding depends on their levels of authority and their functions. In Latin America, some institutions have integrated control of internal taxes and customs duties. As regards internal taxes, most Latin American tax administrations provide information and assistance to taxpayers, maintain the land registry and engage in tax control. As regards collections, there are differences between various tax administrations in terms of whether their powers are delegated or shared with other institutions. Moreover, NTAs sometimes have

¹³For more information, see CIAT (2012).

extra-fiscal functions because of their nature as control institutions, so often their budgets reflect more than their tax-management duties.

A third important aspect of the financial structure of NTAs is that most of their budget goes to payroll expenses, followed by current or administrative costs, investments or capital spending, and other special expenditures.¹⁴

In short, the cost of managing NTAs is generally in fixed proportion to the level of taxes collected. That value is determined by a legal norm, and in some cases an NTA might even return the non-executed budget to the treasury.

It is also important to understand that most of the budgets of NTAs are used to pay the salaries of the technical staff, but a simple comparison of values between countries would not be objective because there are differences, such as authorities and functions, size, number of taxpayers overseen, level of decentralization, and so on. In other words, the biggest “driver” of costs is the management of human resources, followed by investments, primarily in technology and infrastructure.

As mentioned in CIAT (2012: p. 21), the budget-to-GDP ratio for 2009 in Latin American NTAs was 0.18 per cent. The maximum value was 0.55 per cent and the lowest was below 0.12 per cent. By way of comparison, in the OECD countries this indicator was 0.2 per cent of GDP for the same period.

2.3.1 Procedure for estimating and distributing administrative costs (AC)

The methodology for estimating and distributing an NTA’s administrative costs (AC) takes as its main source the institution’s general accounting or budget.

To do this, activity-based costing principles (Kaplan and Anderson, 2006; Brimson and Antos, 1998) that seek to assign internal

¹⁴According to the CIAT Study, in 2010 the average NTA spent 68.1 per cent of its income on remunerations, 21.4 per cent on current expenses, 6 per cent on investments, and the rest on other types of special expenses.

costs by activity and complement the distribution of external costs in line with resource-allocation rules are used.

Finally, the overall allocation result can be divided according to the final purposes of the analysis — in the present case, in line with the collection of each of the taxes overseen by the NTA.

Figure 9 illustrates the different steps to be followed in the estimate methodology.

The main steps in estimating administrative costs are outlined below.

(a) Step 1: Resources

The main input in estimating an NTA's administrative cost is its balance sheet, for which reason it is suggested that a detailed preliminary analysis of each of the accounts included therein be done.

NTA balance sheets are generally divided as follows:

➤ **Current spending:**

Staff remuneration, training, social security, and so on;

Administrative spending, general services and maintenance, rental expenses, and so forth.

➤ **Capital spending:**

Investment in infrastructure (buildings, construction, and so on);

Investment in equipment (IT systems, furniture, and so forth).

Most of an NTA's budget is accounted for by staff remuneration, so the main determinants are the number of officials or other personnel and the annual average salary.

(b) Steps 2 and 3: Resources by function

The next step is to determine the use of resources needed per function of the NTA. This is a two-stage process. The first is to identify, in line with the process mapping of the taxpayer's cycle, the different key macro processes within the NTA and the functional areas related to each of them.

Figure 9:
Analytical diagram of administrative expenses

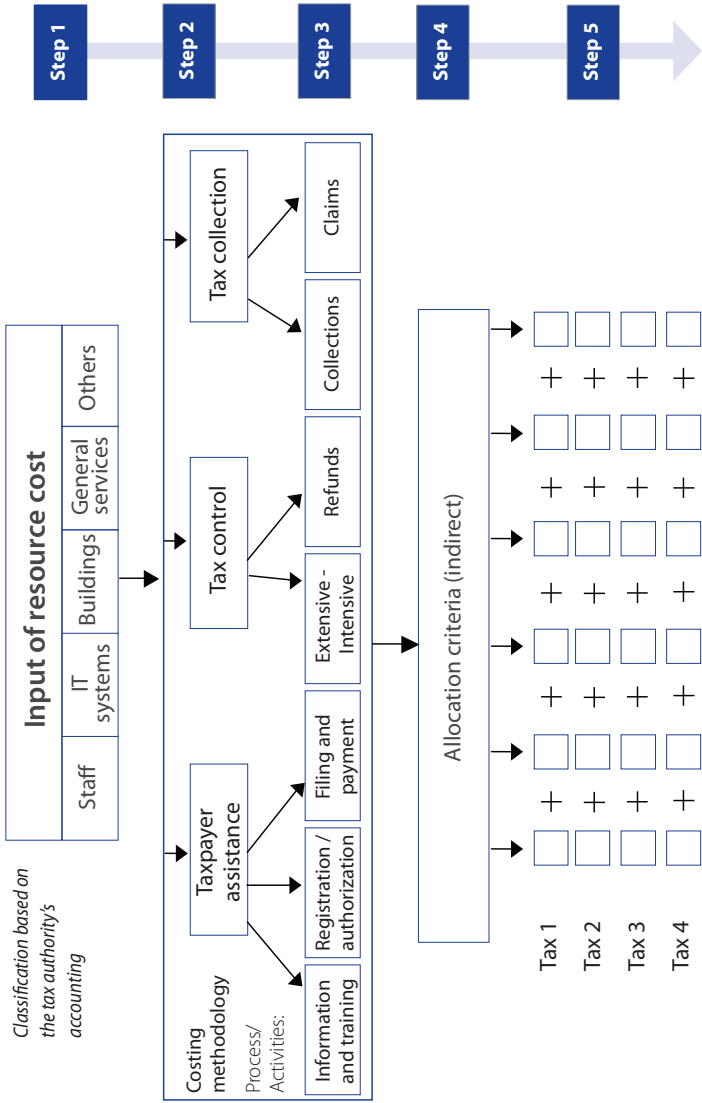


Table 9:
NTA reference budget

Type of spending	Year 1	Year 2	Year 3
Current spending			
Staff remuneration			
Administrative costs			
Capital spending			
Infrastructure investment			
Equipment investment			
Others			
Total budget			
Total percentage collection			
Total percentage GDP			

The second stage is to detail the use of direct resources by function. With activity-based costing it is important to consider the main direct “driver” of cost distribution — that is to say, spending on human resources. It is also important to consider the number of officials assigned to each part of the tax cycle, as that is the basis for determining installed capacity. For general functions, which are a common cost for an NTA, it is suggested that the spending here be prorated in line with the installed capacity, as indicated in step 4.

(c) Step 4: Criterion for allocating indirect costs

In this step, an estimate is made of the external costs allocated in each of the processes-functions, or “cost centres”. Given the nature of the public institution, it can be viewed as a “service unit”, whose main production is measured in terms of time. In other words, the productive capacity of a service unit is gauged by service time, which depends directly on the number of people assigned to a particular activity.

In the case of taxpayer assistance, by way of example, average service times are calculated, and a person at the counter maintains a standard time and attends to a minimum number of taxpayers.

A tax agency’s capacity to provide service depends on the number of officials in attendance. Another example is in the area of VAT refunds, where a review process within an NTA might lead to an official attending to a certain number of transactions per month.

In this case, the installed capacity of transactions will depend on the number of staff assigned to this area.

Table 10:
Direct spending on human resources by function^a

Spending by main function	Spending on remuneration	Number of officials	Percentage of all officials	Average salary
I. Assistance and services				
Information and training				
Registry and authorization				
Return and payment				
II. Control and refunds				
Mass control and audits				
Refunds				
III. Collection and claims				
Collection				
Claims and requests				
IV. General administration				
Administration and finances				
IT systems				
Legal advice and others				
Planning and evaluation				
Total				

^aExcluding other internal costs in areas unrelated to national taxes.

On that assumption, the suggested allocation criterion is the total time the NTA has to conduct transactions, which depends directly on the number of staff assigned in each cost centre area.

It is important to note that the cost centres should be solely those areas that are part of the NTA's main value chain. They should not include support areas that are counted among general administration salary spending. They are considered as indirect costs that will be redistributed within the total costs for each cost centre.

Table 11:
Installed capacity by cost centre

Cost centres	Number of officials	Annual working days^a	Percentage of installed capacity
I. Assistance and services			
Information and training			
Registration and authorization			
Return and payment			
II. Control and refunds			
Mass control and audits			
Refunds			
III. Collection and claims			
Collection			
Total			

^aTotal annual working days is considered as 240 days as a reference, though each country must adjust this in line with actual working days.

With these assumptions, the next step is to distribute indirect costs in each of the cost centres defined above.

(d) Step 5: Cost distribution by type of tax

A simple mechanism for distributing costs by cost centre for all taxes overseen by an NTA is based on the percentage of each tax collected within the total. Despite its limitations, this mechanism offers a simple way of estimating total administrative costs in the NTA for each of the taxes it oversees.

Table 12:
Cost allocation by cost centre

Cost centres	Percentage installed capacity	Total administrative costs (AC = b + c)	Total direct current costs (b)	Total indirect costs (c)	Current spending on general administrative remuneration	Infrastructure investment	Equipment investment	Other spending
I. Assistance and services								
Information and training								
Registration and authorization								
Return and payment								
II. Control and refunds								
Mass control and audits								
Refunds								
III. Collection and claims								
Collection								
Claims and requests								
Total								

**Table 13:
Cost distribution by tax**

Cost centres	Total collection	Percentage of collection	Total administrative costs	TOTAL ADMINISTRATIVE COSTS BY PROCESS		
				I. Assistance and services	II. Control and refunds	III. Collections and claims
Value added tax						
Income tax						
Excise taxes						
Others						
Total						
Percentage of GDP						
Percentage of tax take						

Chapter III

Results assessment and TTC reduction

3.1 Considerations of results assessment

3.1.1 Tax compliance costs: Information processing

Response rate analysis

Once a survey has been carried out, officials must identify the characteristics of the information collected in general terms so as to form a preliminary opinion about it. Tables 14a and 14b summarize the response rate by business size.

Table 14a:
Rate of complete response to survey by business size

(Sales volume)

Business size	Sample (n)	Survey population (N)	Percentage
US \$0 to US \$100 (microenterprise)			
US \$101 – US \$2 million (small enterprise)			
US \$2 million – US \$5 million (medium enterprise)			

Table 14b:
Rate of complete response to survey by business size

(Number of employees)

Business size	Sample (n)	Survey population (N)	Percentage
No employees			
Micro (1 – 10)			
Small (11 – 50)			
Medium (51 – 200)			

Considering how important it is to have an adequate response rate, the first calculation should be to determine what proportion of all surveys sent were returned complete (that is to say, with all questions answered). The ratio will make it possible to determine whether the proportion of surveys is appropriate and valid to start an analysis of the results.

Descriptive analysis of survey results

As with any information-gathering project, it is important to be able to understand the profile of businesses that answered the survey, and the extent to which the information is duly complete and consistent.

To that end, Table 15 summarizes the key features by business size (sales).

Table 15:
Description of the sample by business size

(Sales)

	Business size (sales volume)			Total (percentage)
	Micro	Small	Medium	
Years in operation:				
Less than 6 months				
Between 6 months and 1 year				
1–2 years				
3–5 years				
6–10 years				
More than 10 years				
Missing information				
Main economic activity:				
Activity 1				
Activity 2				
Activity 3				
Activity 4				
Activity 5				
Missing information				

Table 15: (cont'd)

	Business size (sales volume)			Total (percentage)
	Micro	Small	Medium	
Economic sector (groups):				
Primary				
Manufacturing				
Services				
Financial				
Missing information				
Who responds?:				
Manager				
Owner				
Accountant				
Tax regularly paid:				
VAT— general regime				
VAT— simplified regime				
Business income tax— general regime				
Business income tax— special or simplified regime				
Internet access:				
From office				
From home				
Public facility				
Other				
Means of tax calculation:				
Manual				
Spreadsheets				
Computer software				
Electronic accounting system				
Missing information				
Means of completing the sworn statement:				
Hard-copy form				
Form on digital media				
Online form				
Missing information				

Table 15: (cont'd)

	Business size (sales volume)			Total (percentage)
	Micro	Small	Medium	
Means of presenting sworn statements:				
Banking agencies				
Other recipient entities				
NTA website				
Means of payments:				
Cash				
Cheques				
Debit to the account				
Credit/debit card				
Means of accessing information:				
NTA brochures				
NTA website				
NTA seminars				
Information boards				
Newspapers				
Radio				
TV				
E-mail				
Tax specialist				
Friends/family				
Telephone				
SMS				
Other				
None				

3.1.2 Tax compliance costs: Information analysis

Internal compliance costs

Compliance costs have two components, one internal and the other external. The internal cost stems from the valuation of the time spent on complying with tax obligations. Chapter II of this study determined the value of time. Tables 16 and 17 now summarize the compliance costs in terms of the amount of time spent on the various tax activities required, by business size (sales volume).

Duly analysed, this information will enable an NTA to identify which activities are generating higher relative compliance costs for businesses, and also the costs for certain activities that impose a different burden on businesses according to their size.

Table 16:
Compliance costs: Average hours of time within the business spent on activities by business size

(Sales)

	Business size			Total
	Micro	Small	Medium	
Registering information				
Returns and payments				
Audits				
Appeals				
Refunds				
Tax advice				
All activities				

Table 17:
Compliance costs: Average costs

(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Registering information				
Returns and payments				
Audits				
Appeals				
Refunds				
Tax advice				
All activities				

External compliance costs

External compliance costs, unlike internal costs, include only a specific amount that the business states it has paid to comply with its tax obligations.

Table 18 summarizes these costs in percentage terms to give a first impression of how they are distributed by type of tax and business size.

Table 18:
Average annual external compliance costs by business size

Business size (number of employees)	External costs (US dollars)
Micro	%
	(#)
Small	%
	(#)
Medium	%
	(#)
Total	%
	(#)

Table 19 consolidates the information on the referenced compliance costs with the costs incurred by having to comply with the demands of the tax system. It is useful because it illustrates this according to business size.

Table 19:
Incidence of NTA control and the time and cost incurred by the business

	Business size		
	Micro	Small	Medium
Average hours in the company	Time	Time	Time
	(#)	(#)	(#)
External costs related to advice	\$	\$	\$
	(#)	(#)	(#)

Tables 20 and 21 show the scale of internal and external compliance costs, and the sum of the two.

Finally, it is important to add the final outcome of tax transaction costs, which can be broken down according to the tax cycle.

Table 20:
Summary of average annual tax compliance costs by business size
(number of employees) and type of tax

(United States dollars)

		Business size				
		Zero employees	Micro (1-10)	Small (11-50)	Medium (51-200)	All SMEs
VAT, general regime	Internal	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
VAT, simplified regime	Internal	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
All taxes	Internal	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)
	Combined	\$	\$	\$	\$	\$
		(#)	(#)	(#)	(#)	(#)

Table 21:
Summary of average annual tax compliance costs by business size (sales volume) and type of tax

(United States dollars)

		Business size			
		Micro	Small	Medium	All SMEs
VAT, general regime	Internal	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	Combined	\$	\$	\$	\$
		(#)	(#)	(#)	(#)

Table 21: (cont'd)

		Business size			
		Micro	Small	Medium	All SMEs
VAT, simplified regime	Internal	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	Combined	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
All taxes	Internal	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	External	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
	Combined	\$	\$	\$	\$
		(#)	(#)	(#)	(#)
Combined compliance costs (percentage of sales)*		%	%	%	

*Presented in graphical form, the findings would illustrate the expected regressive effect of tax compliance costs — that is to say, a greater burden is imposed on smaller companies in sales terms.

Table 22:
Tax transaction costs: Average cost in United States dollars

	Compliance costs (a)	Administrative costs (b)	Transaction costs (c = a +b)
	US \$	US \$	US \$
Registering information			
Returns and payments			
Audits			
Appeals			
Refunds			
Tax advice			
Total			

3.2 Recommendations on tax and administrative simplification programme

As discussed throughout this study, the purpose is to provide NTA officials with a tool that allows them, in their analysis of the current situation, to identify and measure tax transaction costs, thereby facilitating a taxpayer-oriented process of administrative and tax simplification.

Analysing and measuring TTCs, however, is only the first step in the simplification process, which would remain incomplete if its implementation were not understood in the broader context of a simplification policy.

Implementation of an appropriate scheme requires an initial understanding of several critical success factors:

- **Political leadership:** Political and institutional leaders must display a public commitment to reducing TTCs. To that end, it is important to establish the basic institutions for regulatory improvement, such as a norm that puts the issue on the public policy agenda, or a taxpayers' charter.
- **Institutional set-up:** Another good practice is to create an agency responsible for monitoring and coordinating at horizontal and vertical levels, with a view to giving continuity to public policy. That agency would also be responsible for methodology and constant measurement of TTCs over time.
- **Quality systems:** A formal system of quality management in tax system processes helps simplify them and offers certainty to business owners.
- **Human resources:** It is important to take advantage of existing human resources in the various NTA units to implement the simplification policy. To that end, continuous training, discretion on the part of the public servants managing the tax system, as well as the right incentives for them, help underpin procedural enhancements.
- **Electronic government:** There is a need for online government tools to simplify the bureaucratic procedures that businesses have to tackle. Their technical platforms should be built gradually, providing access to information about their

services and reducing transaction costs. Wherever possible, these tools must take a multi-level approach and be integrated into the whole taxpayer cycle.

- **Risk management:** As regards inspections and audits, it is important to focus the agencies' resources on areas where tax risks are greater (that is to say, controls should be targeted according to risk). Prior inspections should be avoided unless the risks are substantial. When possible, primacy should be given to post-return inspections, establishing controls on the auditors' discretion and procedures for reporting abuse.

To start a simplification process, it is important to define the procedures that will be derived from the analysis. Before embarking on that stage, however, it is crucial to understand what the process is and what implications the procedures will have for the national tax administration. In this regard, Davenport's (1993) definition of process was used: "a structured, measured set of activities designed to produce a specific output for a particular customer or market." Emphasis is placed on how things are done and a constant effort is made to do them better — meaning, in this case, that the procedures will seek to optimize time and cost for the taxpayer and the NTA.

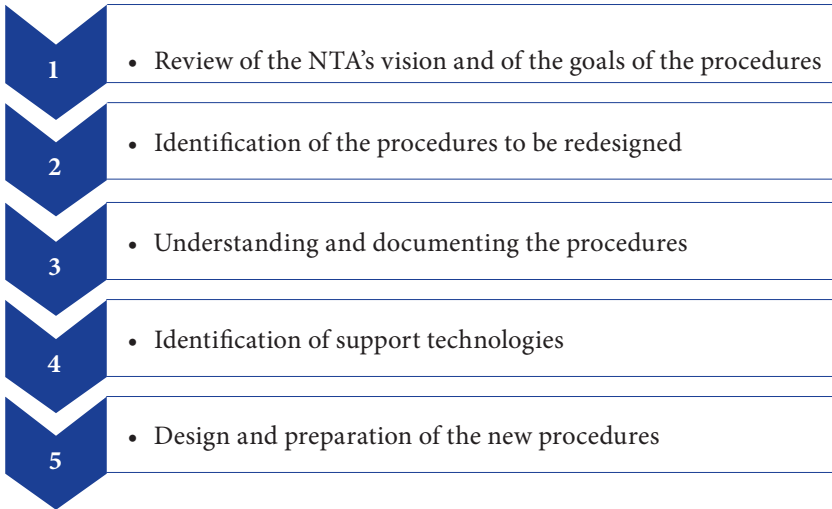
A simplification process is not necessarily at odds with the complexities of fiscal policy. Simple procedures may be sought within all the complexity attendant on tax reforms in each of the countries of the region.

Neither is simplification the same as automation. The aim of this methodology is to bring about a review of procedures in the interests of efficiency, eliminating unnecessary steps and lowering the costs that such procedures impose on taxpayers. Information technologies can confer competitive advantages to taxpayers, but it may be the case that automating an existing procedure could raise the cost for a particular taxpayer in a particular context. Access problems might arise. Applications might be developed with little thought for their usability, or may be rooted in paper-based procedures. In some cases, such developments could lead to less efficient and more costly processes.

Following this outline of the critical success factors, a quick guide to implementing administrative simplification is given below.

Each of its five steps has a clear goal, and it is the prerogative of each NTA to use its best method for implementing each step.

Figure 10:
Quick guide to the administrative and tax simplification process



Source: Davenport and Short (1990).

1. Review of the NTA’s vision and of the goals of the procedures

A. Review of the vision and mission of the NTA

A simplification process should be aligned to the tax administration’s vision and mission, which should be reviewed in order to extract the specific objectives geared to redesigning procedures.

Although the simplification principles are inherent to all NTAs, some considerations will help prioritize and assess the procedures to be redesigned.

B. Draw up guidelines for simplification

On the basis of the vision, mission and goals, some guidelines should be drawn up to facilitate setting priorities for the redesign of procedures. The guidelines should include such

matters as prioritization based on monetary cost to taxpayers or to the NTA, or time spent on given procedures, among other criteria.

2. Identification of the procedures to be redesigned

Listing and prioritizing the procedures to be redesigned

Based on the results of measuring the NTA's tax administration transaction costs as presented in the methodology set out in this study, all those procedures that lead to high relative costs for taxpayers and the NTA, and that are consistent with the simplification guidelines in the previous step, should be listed. Priorities can then be established based on the NTA's simplification guidelines, which stipulate objective criteria on budget, timing, impact, and so on.

3. Understanding and documenting the procedures

A. Regulatory analysis

(a) Identification of the regulations

As a first step, the regulatory framework associated with the procedures should be identified, so as to gain a thorough understanding of the related legal provisions. This facilitates the development of subsequent phases of simplification because it helps to visualize the scope of any proposed improvement.

(b) Classification of regulations

The regulations can then be grouped according to several criteria, such as the following more common classifications, which are divided by content, as follows:

- (i) **Substantial:** These regulations determine the taxpayer's rights, the activity or service provided by the tax administration, and the taxpayer's obligations which require a procedure in order to be met or undertaken;
- (ii) **Procedural:** These regulations set out formal matters related to how the administration reaches its decisions;

- (iii) Authority-related: These regulations give procedural authority to particular institutions.

Another way of classifying the regulations may be by hierarchical level, which may be legal, regulatory or informational.

B. Classification of information requirements and obligations

Information requirements and obligations are classified according to the regulations governing the procedures, as well as to the actual situation arising from administrative practice. A requirement is any matter requested from a taxpayer in order to obtain an authorization or provision. "Specific" requirements have a special meaning when related to procedures requiring documentation to be substantiated.

Information requirements are defined as duties established by the regulations to provide information to the public sector. Information requirements and obligations should be classified according to whether corroborative documentation must be submitted.

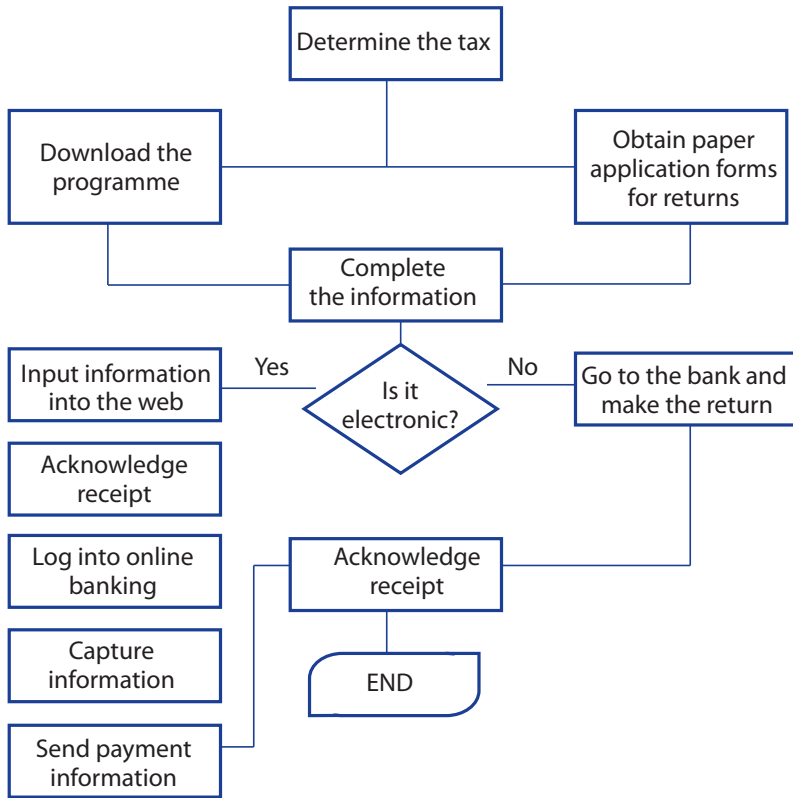
C. Processing procedures

On the basis of the regulations affecting the procedures, and in line with meetings with those responsible for managing procedural matters, the following should be described:

- The processing sequence
- Its object or purpose
- The job level (or professional skill level) required to carry out the processing
- The deadline for each procedure
- Supporting documents.

A graphical representation of the procedural flow illustrates the processes involved in the procedures, the tasks in each phase, the transitions between them and the profiles of users taking part.

Figure 11:
Example of the tax return and payment procedure



D. Classification of documentation

The classification of documents related to the relevant files facilitates the subsequent standardization and rationalization to streamline procedures. The general approach is as follows:

- (a) The forms, templates and documents should be classified based on their function in the process. A classification similar to the following is recommended:
 - (i) Decision documents: those that establish agreements or specific resolutions;

- (ii) Transmission documents: used for communications, notices, and publications;
 - (iii) Support documents, such as minutes and certifications;
 - (iv) Judicial documents, consisting of reports;
 - (v) Taxpayers' documents: the forms and templates that taxpayers can use, such as those for requests, complaints, claims, and so on. Also included is the general documentation corroborating the circumstances claimed by taxpayers.
- (b) Documents that follow standardized templates, especially application forms, should be identified and the availability of paper and/or electronic support should be determined.
 - (c) A code tag and a specific name should be attributed to each document.
 - (d) The documents should be related to the phases of the procedure, establishing if they are incoming or outgoing documents in each case.

E. Identification of management data

It is important to devise management indicators to assess the quality of services and the improvement in processing. Data related to administrative management should be collected, such as: number of cases processed; number of people and businesses affected by the procedure; timeframe of the processing and its resolution (the resolution time being the period between the start of the procedure and its ending, with due notification to the person concerned); number of documents required to meet a requirement or substantiate a circumstance to be evaluated in the procedure; and the minimum number of visits to the tax authorities in order to resolve the procedure.

The procedure should be assessed at this stage, along with data on the TTCs, to determine where in the process the greatest burden of costs is located. This would help efforts to prioritize activities geared to improvement.

4. Identification of support technologies

A. Information technology (IT) support

The general thrust of this activity is to identify management software that supports current processing, determining its basic functionality and technical architecture, including external applications with which it is interconnected and that allow data exchange with other public administrations.

B. Feasibility of improvements

Before starting the process of improving tax procedures, it is important to know the capabilities and limitations of information technology in the redesigned process. It is essential to involve IT in this process because advancements in technology alone could give rise to improvements in the procedure. A simplification process rests on IT support but should not bring about the automation of complicated procedures. In this regard, it is important to analyse the behaviour of taxpayers in their use of IT, the country's connectivity and whether the process can or cannot be taken online.

5. Design and preparation of the new procedures

A. Reduction in taxpayer requirements, information obligations and documentation to be submitted

The aim is to simplify and reduce the administrative burdens related to the efforts made by individuals and companies, especially SMEs, regarding the substantiation of requirements and compliance with tax-reporting obligations.

To those ends, the following simplification strategies can be considered:

- (a) Replacing prior stakeholder authorizations with post-tax-return control;
- (b) Reviewing or removing information requirements and obligations;

- (c) Lowering demands for data and documents;
- (d) Standardizing forms.

A useful tool for the simplification process is to establish a question tree, with a view to finding alternatives for each of the requirements that have been identified for improvement.

Examples could include:

- Was the usefulness of an information request examined? How was the request made? Can a requirement be removed?
- What value does the information add to the procedure and to the NTA?
- Will the frequency of providing information be reduced?
- What verifications are to be made?
- Have the procedure forms and documents been standardized?
- Has thought been given to pre-compliance of data?
- Are photocopies of identity documents still required? Are notarized documents required? What thought was given to the possibility of replacing the production of documents with affirmations?

B. Streamlining the sequence of administrative processing

The aim is to streamline processing so as to reduce response times. The analysis should be conducted on the basis of the flow of bureaucratic processing, using the following criteria:

- Establish deadlines for resolution
- Administrative silence to be interpreted as an affirmative response
- Analysis of timeframes
- Ex officio action
- Standardization and elimination of procedures
- Elimination of procedures and/or tasks

- Organization and streamlining of the workload
- Reduction and automation of internal communications
- Adjustment to processing patterns
- Standardization of the document template.

As mentioned above, it is possible to establish a question tree to identify potential opportunities for improvement, along the following lines:

- What are the proposals for decentralization?
- Do all the parties involved have to take part in the processing?
- Do these tasks have to be performed by the same people?
- Are all the dossiers resolved within the established deadlines?
- Are there constant deviations from the norm? What are the reasons for them?
- What improvements have been proposed to reduce deviations?
- What tasks were considered redundant and have been removed?
- Has any mandatory procedure been eliminated?
- Are there templates for the submission of documents by taxpayers during processing?
- Is there a standardized template for a tax return?
- Have public notifications and communications been standardized?

C. Electronic management procedure

The e-Government strategy within the NTA is crucial in any plan for administrative simplification.

The following are some good practices:

- Electronic access to forms for all procedures
- Electronic submission of request applications with the identity and electronic signature of the individual

- Presentation of copies of electronic documents attached to the application
- Electronic acknowledgement certifying the filing date
- Possibility of attaching documents to an existing file through electronic channels
- Electronic payment for administrative procedures, including liquidation, self-payment, refunds or fees
- Electronic notifications and communications
- Online consultation of file status
- Instituting electronic management for all the stages of the procedure
- Proactivity: Taking advantage of the NTA's knowledge of taxpayers to anticipate their needs through draft proposals, campaigns, alerts, and so on
- Automated administrative action
- Management information: It is recommended that information systems devised to support administration should allow control of timeframes, with a view to automating the creation of management indicators
- E-books
- Online accounting for SMEs
- Electronic site or web page
- Creating electronic access to personal data for self-service.

D. Participation, transparency and information

A main goal should be to evaluate the ability to provide taxpayers with good information on their rights and tax obligations, and on the administrative procedures that allow them to respond and access the services provided by the NTA.

A clear taxpayer information strategy has two main lines: general information and specific information. These two lines should be arranged in a multichannel way, and should be updated and bidirectional, allowing participative tools such as claims, complaints and satisfaction questionnaires.

E. Evaluation and continuous improvement

The last phase of the administrative simplification process must take account of the need to adapt the regulations to the new procedures, modifying or adjusting the rules as necessary; to develop technological environments that allow the indicated improvements to be instituted electronically; and to provide for the necessary continuous assessment and improvements to successfully undertake administrative simplification.

There are a number of tools that enable the NTA to measure and evaluate the actions taken, and to identify areas in which to work so as to improve service delivery.

The implementation of a new procedure usually involves changes in the way work is done, which can sometimes hinder acceptance of improvement. Thus, it is very important to define the elements that facilitate change management, such as giving proper information and training to managers and service staff, and providing the necessary technical assistance.

Most of the present simplification scheme involves changes and reforms at the administrative or regulatory level in the current tax system.

There are, however, other tax-system reforms that have sought to institute special simplified regimes. In some cases these may include simplified approaches to the requirements demanded by an NTA, as well as tax-rate reduction schemes, thus providing incentives for SMEs to register within the tax system.

Table 23:
Matrix of goals, actions and results

PHASE	GOALS	ACTIONS	RESULTS
1. Review of the NTA's vision and the goals of the procedures.	Alignment with the goals of the tax administration.	Review of the vision and mission of the NTA. Development of guidelines for simplifying procedures.	A document laying out simplification guidelines.
2. Identification of the procedures to be redesigned.	Prioritize the procedures.	Listing and prioritizing the procedures that can be redesigned on the basis of the results of the implementation of this study.	List of procedures to be redesigned.
3. Understanding and documenting the procedures.	Understanding and documenting the procedures on which action is to be taken.	Analysis of regulations. Classification of requirements and reporting obligations. Description of processing. Classification of documentation. Identification of management data.	A document describing the procedures with all the information collected, including a mapping of the procedures. Completion of the information in the procedures registry.
4. Identification of support technologies.	Analyse the feasibility of using technology to improve processes.	Description of IT support. Feasibility of improvements.	A document providing a technological analysis of the selected procedures.

Table 23: (cont'd)

PHASE	GOALS	ACTIONS	RESULTS
5. Design and preparation of the new procedures.	<p>Design the new management model on the basis of the analysis, systematically applying the simplification criteria and the definition of the viable improvements.</p> <p>Implement the identified improvements, taking account of different perspectives: regulatory, technological, and continuous improvement.</p>	<p>Reduction of requirements, and of reporting and documentation obligations.</p> <p>Streamlining of administrative-processing sequence.</p> <p>Electronic management procedure.</p> <p>Inclusion of means for participation, transparency and information provision.</p> <p>Evaluation and continuous improvement.</p>	<p>Report based on the identified improvements and the feasibility of their implementation.</p> <p>Procedure-processing guide, including identified improvements.</p> <p>New regulations published.</p> <p>Updating the registry of administrative procedures.</p>

Annex

Survey questionnaire for small and medium taxpayers

General instructions:

1. Questions must be answered in the name of the business that has been notified.
2. The business concept includes all forms of business incorporation (individual or company of any legal status).
3. If your company has ancillary establishments (headquarters/branches/affiliates), ensure that the estimates consider or include all of them.
4. The NTA will not know who has responded and only anonymous responses will be submitted.
5. Many questions require “monthly” or “yearly” estimates considering the “last 12-month” period. If a good estimate cannot be made for that period, consider the criterion of “monthly or monthly-basis” amount or “annualized amount”.

SECTION 1 — GENERAL QUESTIONS

1. Please indicate who will answer the following questionnaire (check one option only)	
Manager/Administrator	<input type="checkbox"/>
Owner	<input type="checkbox"/>
Accountant	<input type="checkbox"/>

2. How long have you been operating your business? (Choose one option)	
Less than 6 months	<input type="checkbox"/>
Between 6 months and 1 year	<input type="checkbox"/>
1 – 2 years	<input type="checkbox"/>
3 – 5 years	<input type="checkbox"/>
6 – 10 years	<input type="checkbox"/>
More than 10 years	<input type="checkbox"/>

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3. How many branches/offices does the business have and what is their coverage? (Check one option only)	
1	<input type="checkbox"/>
2	<input type="checkbox"/>
3	<input type="checkbox"/>
4	<input type="checkbox"/>
More than 4	<input type="checkbox"/>

4. What coverage does your business have? (Check one option only)	
Local	<input type="checkbox"/>
National	<input type="checkbox"/>

5. What is the main economic activity of your business? (Check one option only)	
Agriculture, livestock, hunting and forestry	<input type="checkbox"/>
Fishing	<input type="checkbox"/>
Mines and quarries	<input type="checkbox"/>
Manufacturing industries	<input type="checkbox"/>
Provision of electricity, gas and water	<input type="checkbox"/>
Construction	<input type="checkbox"/>
Wholesale and retail trade, vehicle repairs and parts	<input type="checkbox"/>
Hotels and restaurants	<input type="checkbox"/>
Transport, storage and communications	<input type="checkbox"/>
Financial intermediation	<input type="checkbox"/>
Real estate and rental activities	<input type="checkbox"/>
Public administration and defence, mandatory social security plans	<input type="checkbox"/>
Education (private)	<input type="checkbox"/>
Social and health services activities (private)	<input type="checkbox"/>
Other community, social and personal services	<input type="checkbox"/>
Domestic services in private homes	<input type="checkbox"/>
Other	<input type="checkbox"/>

6. What was your business's annual income (in United States dollars) in the last fiscal year? (Check one option only)	
\$0 – \$100,000	<input type="checkbox"/>
\$100,001 – \$500,000	<input type="checkbox"/>
\$500,001 – \$2 million	<input type="checkbox"/>
More than \$2 million	<input type="checkbox"/>

SURVEY QUESTIONNAIRE

7. How many employees did your company have at the end of last month (Including family and friends)?	
1 to 10	<input type="checkbox"/>
10 to 30	<input type="checkbox"/>
30 to 50	<input type="checkbox"/>
50 to 100	<input type="checkbox"/>
100 to 200	<input type="checkbox"/>
More than 200	<input type="checkbox"/>

8. To which taxes is your company subject? (Check all options that apply)	
Value Added Tax — general regime	<input type="checkbox"/>
Value Added Tax — simplified regime	<input type="checkbox"/>
Corporate Tax — general regime	<input type="checkbox"/>
Corporate Tax — special or simplified regime	<input type="checkbox"/>

9. Do you use the Internet to comply with your tax obligations?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

10. From where do you access the Internet to comply with your tax obligations? (Check all options that apply)	
From your office	<input type="checkbox"/>
From home	<input type="checkbox"/>
From a public computer	<input type="checkbox"/>
Other	<input type="checkbox"/>

11. Regarding access to banking/financial services, does your company have a bank account?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

12. If your answer is YES, which type of account does your company have? (Check only one option)	
Owner's personal account	<input type="checkbox"/>
Company savings account	<input type="checkbox"/>
Company current account	<input type="checkbox"/>

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13. Do you use this account for tax payments?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

14. Answer the following questions					
	Never	Rarely	Sometimes	Usually	Always
Is the tax system easy to understand?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the tax administration have mechanisms that help you pay your taxes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the tax administration reliable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are public services used and is there public investment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Would you say that citizens of your country comply with tax laws?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15. If you are registered in the simplified tax regime, do you perceive that the tax system has helped you to:					
	Never	Rarely	Sometimes	Usually	Always
Get information on tax obligations more easily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduce registration requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Facilitate the approval of accounting documents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Duly comply with tax obligations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. If you are registered in the simplified tax regime, do you think that being registered with it has brought you additional benefits?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

17. If your answer is YES, please describe	

SECTION 2 — INTERNAL COSTS

Information on registering with the NTA

18. How much time does it take to register with the tax registry or to obtain a tax registry number?

	Hours	
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Registry of accounting operations

19. Through which procedure are your operations registered to comply with the tax legislation? (Check one option only)

In physical registers or books		<input type="checkbox"/>
In computerized registers or books		<input type="checkbox"/>
In electronic registers or books (authorized by the NTA)		<input type="checkbox"/>
Other		<input type="checkbox"/>

20. How much time per year does the accounting registry of business and financial transactions take?

	Hours	
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Return and payment

21. What method do you use for the calculation or payment? (Check all the valid options)

Manual calculation		<input type="checkbox"/>
Spreadsheets		<input type="checkbox"/>
Computer programmes		<input type="checkbox"/>
Electronic accounting system		<input type="checkbox"/>
Other		<input type="checkbox"/>

22. How much time does it take per year to calculate or pay taxes?

	Hours	<input type="checkbox"/>
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23. What method do you use to complete the sworn statement? (Check all the valid options)

Physical form		<input type="checkbox"/>
Form loaded on electronic media (disk, CD, USB, etc.)		<input type="checkbox"/>
Online form		<input type="checkbox"/>

METHODOLOGY FOR MEASURING TAX TRANSACTION COSTS

24. How much time does it take to complete the sworn statement?	
Hours	

25. What method do you use to submit the sworn statement? (Check one option only)	
Banking institution	<input type="checkbox"/>
Other receiving entities	<input type="checkbox"/>
NTA offices	<input type="checkbox"/>
NTA website	<input type="checkbox"/>

26. How much time per year does it take to submit the sworn statement?	
Hours	

27. What payment method(s) do you use to pay your tax obligations? (Check all the valid options)	
Cash	<input type="checkbox"/>
Cheque	<input type="checkbox"/>
Company account debit	<input type="checkbox"/>
Credit or debit card	<input type="checkbox"/>

28. How much time per year does it take to pay the calculated taxes?	
Hours	

29. How many times a year do you submit a return and make a payment? (Check all the valid options)	
Monthly (12 times a year)	<input type="checkbox"/>
Every two months (6 times a year)	<input type="checkbox"/>
Every 3 months (4 times a year)	<input type="checkbox"/>
Every 6 months (2 times a year)	<input type="checkbox"/>
Once a year (yearly)	<input type="checkbox"/>
Other	<input type="checkbox"/>

30. During the last 12 months, have you been penalized for not making due payment on time?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

SURVEY QUESTIONNAIRE

31. How would you qualify the application of penalties for submitting late returns?	
They are an important deterrent to late submissions	<input type="checkbox"/>
They do not deter late submissions	<input type="checkbox"/>

Guidance for complying with tax obligations

32. What means do you use to obtain information about complying with your tax obligations? (Check all applicable options)	
NTA leaflets	<input type="checkbox"/>
NTA website	<input type="checkbox"/>
NTA seminars	<input type="checkbox"/>
Notice boards in NTA offices	<input type="checkbox"/>
Newspapers	<input type="checkbox"/>
Radio	<input type="checkbox"/>
Television	<input type="checkbox"/>
E-mail	<input type="checkbox"/>
Tax expert	<input type="checkbox"/>
Friends and family members	<input type="checkbox"/>
Telephone	<input type="checkbox"/>
SMS	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input type="checkbox"/>

33. In order to learn about tax-related news, how much time does it take to coordinate with the tax adviser (internal and/or external)?	
Hours	

34. How much time does it take you to learn new and existing tax regulations and procedures — for example, using the Internet, visiting the tax administration’s custom service offices, etc?	
Hours	

35. If you engage in other learning-related activities, please indicate how much time they take	
Hours	

Tax control

36. Has the tax administration directed any control action at you in the last 12 months?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

37. Which action? (Check all valid actions)	
Verification	<input type="checkbox"/>
Audit	<input type="checkbox"/>
Other	<input type="checkbox"/>

38. How much time did it take you to comply with the control action?	
Hours	

39. Did you have any external costs (such as fees to an accountant or external adviser)? How much did it cost?	
Approximate fee amount in United States dollars	

Request for refunds

40. Have you completed refunds requests during the last 12 months?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

41. If your answer is YES, please specify for which tax you submitted the refund request	
Income tax	<input type="checkbox"/>
Value added tax	<input type="checkbox"/>
Other	<input type="checkbox"/>

42. Please select the procedure that you follow to prepare and submit the request	
(a) It is prepared by the company's staff	<input type="checkbox"/>
(b) It is prepared by a specialized external adviser	<input type="checkbox"/>

43. If the answer to the above question is (a), estimate the time required for the preparation and presentation	
Hours	

SURVEY QUESTIONNAIRE

44. If the answer to question 42 is (b), estimate the cost in United States dollars	
External costs (such as fees to an accountant or external adviser)	

45. On average, how long did it take to receive the refund you had requested?	
Less than 1 week	<input type="checkbox"/>
1 to 2 weeks	<input type="checkbox"/>
2 to 3 weeks	<input type="checkbox"/>
3 to 4 weeks (1 month)	<input type="checkbox"/>
1 to 2 months	<input type="checkbox"/>
More than 2 months	<input type="checkbox"/>

Appeals

46. Have you presented any appeal against the TA in the last 12 months?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

47. If your answer was YES, please indicate the method you used to prepare and submit the appeal	
(a) Prepared by the company staff	<input type="checkbox"/>
(b) A specialized external adviser prepared it	<input type="checkbox"/>
48. If the answer to the above question is (a), calculate the time required for preparation and submission	
Hours	

49. If the answer to question 47 is (b), calculate the related cost	
External costs (such as fees to an accountant or external adviser)	

50. On average, how much time does it take to receive the final conclusion of the appeal?	
Less than 1 month	<input type="checkbox"/>
More than 1 month and less than 2 months	<input type="checkbox"/>
More than 2 months and less than 3 months	<input type="checkbox"/>
More than 3 months and less than 4 months	<input type="checkbox"/>
More than 4 months and less than 5 months	<input type="checkbox"/>
More than 5 months	<input type="checkbox"/>

SECTION 3 — EXTERNAL COSTS

51. During the past 12 months, did the company have to pay for the services of an external adviser or assistant (meaning an specialist who works not as company staff but whose expertise support is required)?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

52. If the answer was YES, please specify which process/activity required the external adviser (check all that apply)	
Registering information	<input type="checkbox"/>
Returns and payments	<input type="checkbox"/>
Audit support	<input type="checkbox"/>
Appeals	<input type="checkbox"/>
Tax refunds	<input type="checkbox"/>
Tax advice	<input type="checkbox"/>

53. How much did you pay to these professionals in United States dollars per year to comply with your tax obligations?		
	External accounting adviser	External legal adviser
Less than \$1,000	<input type="checkbox"/>	<input type="checkbox"/>
From \$1,001 to \$2,000	<input type="checkbox"/>	<input type="checkbox"/>
From \$2,001 to \$10,000	<input type="checkbox"/>	<input type="checkbox"/>
From \$10,001 to \$20,000	<input type="checkbox"/>	<input type="checkbox"/>
More than \$20,000	<input type="checkbox"/>	<input type="checkbox"/>

54. Which activities have external advisers performed? (Check all that apply)		
	External accounting adviser	External legal adviser
Registering information	<input type="checkbox"/>	<input type="checkbox"/>
Returns and payments	<input type="checkbox"/>	<input type="checkbox"/>
Audit support	<input type="checkbox"/>	<input type="checkbox"/>
Appeals	<input type="checkbox"/>	<input type="checkbox"/>
Tax refunds	<input type="checkbox"/>	<input type="checkbox"/>
Tax advice	<input type="checkbox"/>	<input type="checkbox"/>

SURVEY QUESTIONNAIRE

55. During the last 12 months, did the company have to pay for the services of an external adviser, other than your main adviser?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

56. If the answer is YES, provide an approximate amount of the cost due to an external adviser other than your main adviser:	
Approximate fee in United States dollars	

SECTION 4 — FINAL QUESTIONS

57. The time devoted to the described activities is valuable. What is the approximate value of this time for each category of staff working in your business and devoting time to these activities in United States dollars?	
Owners/shareholders/directors (per hour)	
Paid employees (per hour)	
Unpaid friends and relatives (per hour)	

58. During the last 12 months, were there any exceptional circumstances making these compliance costs unusually high or unusually low (relative to the size of your business)?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

59. If the answer was YES, please describe briefly.	

60. Estimate the annual cost in United States dollars	
External costs	

61. What type of service would you like the NTA to improve or offer in order to help you with tax compliance?	
Improve information at the tax windows	<input type="checkbox"/>
Improve information on web page or at call centre	<input type="checkbox"/>
Offer/improve training in taxation topics	<input type="checkbox"/>

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Include tax advisers	<input type="checkbox"/>
Reduce the frequency of tax returns submission	<input type="checkbox"/>
Reduce or eliminate requirements	<input type="checkbox"/>
Introduce Internet tools and services (such as accounting, registering, information updates, etc.)	<input type="checkbox"/>
Lower fines and penalties	<input type="checkbox"/>
Making tax regulations more predictable	<input type="checkbox"/>
Simplify invoicing procedures	<input type="checkbox"/>
Other	<input type="checkbox"/>

62. We would be grateful if you could make additional suggestions/ recommendations to improve the tax administration's services and assistance to taxpayers

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Abbreviations

AC	Administrative costs
CC	Compliance costs
CIAT	Inter-American Center of Tax Administrations
EC	External costs
ECLAC	Economic Commission for Latin America and the Caribbean
IC	Internal costs
NTA	National tax administration
OECD	Organisation for Economic Co-operation and Development
SME	Small and medium enterprises
TA	Tax administration
T_A	Time
TTC	Tax transaction costs
V_A	Value of time

Part Two

Country Study: Costa Rica

Executive Summary

In 2012, tax transaction costs were equivalent to 1.78 per cent of gross domestic product (GDP) in Costa Rica. Of this, the tax compliance costs incurred by taxpayers accounted for 1.67 per cent and the administrative costs of the Directorate General for Taxation (DGT) accounted for 0.11 per cent.

1. Micro, small and medium enterprises (MSMEs) comprise a significant share of firms in Costa Rica. According to the definition used by the United Nations Department of Economic and Social Affairs (United Nations-DESA) and the Inter-American Center of Tax Administrations (CIAT), most of them are microenterprises. Only 0.5 per cent of them are medium-sized, with sales of between US \$2 million and US \$5 million.
2. The average cost per company was US \$2,156 per year. For microenterprises the average cost was US \$2,150; for small firms it was US \$2,160; and for large enterprises it was US \$3,254. These differences stem from the external costs and expenses incurred by companies, which account for some 75 per cent of the tax transaction costs. As these are fixed costs, when they are analysed as a percentage of sales, it is clear that compliance costs in relative terms are regressive for microenterprises (equivalent to 4.3 per cent of sales). For small and medium enterprises they are equivalent to 0.5 per cent and 0.2 per cent of sales, respectively.
3. An average company in the general tax system spends 134 hours a year on complying with its tax obligations, costing such companies an average of US \$649 per year. Some 47 per cent of companies said that they use external advisers to comply with their tax obligations.
4. Administrative costs are equivalent to 0.11 per cent of GDP. Staff remuneration is the leading item in the DGT budget, and thus the methodology of resource allocation by installed capacity is consistent with the calculations performed.

5. There is some concentration of administrative costs (0.05 per cent) in the control activities of the tax administration (TA), which positively affects the outcomes of oversight. Hence, there is a relationship between spending on control and compliance costs. Some 9 per cent of respondents said that they were subject to control actions by the tax administration.
6. This study is a first approach to assess the compliance costs of both the general and simplified regimes. It is therefore suggested that the analysis should be extended in further studies that include the overall cost-benefit of the tax system for the economy as a whole, paying particular attention to the issue of simplification.

Chapter I

General aspects of the Costa Rican tax system

1.1 Economic and business structure of Costa Rica

The Republic of Costa Rica borders Nicaragua to the north and Panama to the south-east. It has a population of 4,652,459 (2013) and covers 51,100 km². It has a Caribbean coast to the east and a Pacific coast to the west. Its maritime boundaries abut those of Colombia, Ecuador, Nicaragua and Panama. Its capital, the political and economic centre, is San José and its official language is Spanish.



On the 2012 Human Development Index (HDI), Costa Rica ranks seventh in Latin America and second in Central America. According to the Gender Inequality Index for 2010, Costa Rica is the most egalitarian country in Latin America. In 2010, the United Nations Development Programme (UNDP) indicated that Costa Rica has achieved a much higher level of human development than other countries with the same income level. In the 2013 UNDP report, Costa Rica had the highest life expectancy in Latin America (79.4 years).

According to the Konrad Adenauer Foundation, Costa Rica is the most democratic country in Latin America because of the high proportion of women in elective office, the participation of a wide range of parties in Congress, and the efficiency and coverage of health and education services.

The Costa Rican economy has been transformed from predominantly agricultural to one in which services play an important role. Income from traditional agricultural exports such as bananas, coffee, sugar, cocoa and pineapple are still important. Of note is the production of high-quality Costa Rican coffee and its export to the market in the United States of America, where it is highly valued. Nonetheless, income from non-traditional exports such as flowers and mini-vegetables has largely surpassed the sale of traditional products and the services sector has grown strongly in recent years, creating more than 10,000 jobs.¹

Tourism is the fastest-growing industry and since the early 2000s has been earning more foreign exchange than any of the main agricultural exports. While the traditional agricultural exports of bananas, coffee, sugar and meat remain the backbone of the country's foreign sales, a variety of agricultural, industrial and specialized products have expanded the export mix in recent years. Moreover, Costa Rica has focused on high value-added products such as microchips. Similarly, tourism has made an important contribution to the economy; the country's biodiversity makes it a popular destination for ecotourism.

Costa Rica is currently one of the most stable economies in Latin America. In recent years, the country has enjoyed growth rates of more than 4 per cent, allowing it to recover from the global crisis of 2008–2009. Inflation is moderate, running at about 5 per cent in the past three years.

On the *Doing Business* ranking (World Bank and International Finance Corporation, 2013), Costa Rica is placed at 110, with notable rankings in categories such as access to electricity (45), registering property (46) and trading across borders (51). The country is below the

¹See CaribeInsider: <http://www.caribeinsider.com/es/economia/202>.

Latin American averages in protecting investors (169), resolving insolvencies (128) and building permits (128). It should be noted that in the category of paying taxes, Costa Rica is ranked at 125, up 10 places from 2012.

**Table 1:
Indicators**

(Annual growth rate)

	2010	2011	2012
Gross domestic product	4.9	4.2	5.1
Inflation	5.8	4.7	4.6

Source: Central Bank of Costa Rica (BCCR).

According to the same study, businesses spend 226 hours a year on complying with tax requirements.² They also have to make 23 payments a year, 8 fewer than in the previous year. These figures are below the average for Latin America and the Caribbean.

**Table 2:
Doing business 2012 – 2013**

Indicator	2012	2013
Ranking	135	125
Payments (per year)	31	23
Time (hours per year)	246	226
Tax rate	55	55

Source: World Bank and IFC (2013).

Costa Rica has a large group of firms that are classified as micro, small and medium enterprises (MSME). These account for almost all the country's productive plant (97.8 per cent) and create 48.4 per cent of private-sector employment (Monge-González and Rodríguez-Álvarez, 2012).

According to the Costa Rican Social Security Fund (cited by the Chamber of Commerce, Costa Rica, 2013), in December 2012, the

²Includes corporate income tax, indirect tax and social security.

commercial sector comprised 65,538 formal businesses, of which 72.7 per cent are classified as microenterprises (1 – 5 workers), 21.4 per cent as small businesses (6 – 30 workers), 4.1 per cent as medium-sized businesses (31 – 100 workers), and 1.9 per cent as large companies (more than 100 workers). In other words, 98.1 per cent of formal businesses are MSMEs.

Table 3:
Number of companies, June 2012

Type of company	Number of employees	Number of companies	Percentage
Micro	1 to 5	47 621	72.7
Small	6 to 30	14 011	21.4
Medium	31 to 100	2 669	4.1
Large	More than 100	1 237	1.9
Total		65 538	100.0

Source: Chamber of Commerce, Costa Rica (2013).

1.2 Tax system and institutional setup

1.2.1 Institutional setup

The Costa Rican tax system is managed by the Ministry of Finance, within the Vice-Ministry of Revenue. This consists of the Directorate General of Customs, which is responsible for administering customs-related taxes; the Directorate General of Finance, which is in charge of judicial collection; the Fiscal Control Police, responsible for investigation and inspection to determine infringements and crimes in the areas of tax, customs and the Treasury; and the Directorate General of Taxation (DGT), which is the lead agency on domestic tax issues. The DGT seeks to foster continuous improvements to the tax system, striving for balance and progressiveness in a manner consistent with citizens' rights and guarantees.

Appeals are decided by the Administrative Tax Court.³ This has national jurisdiction and is responsible for being informed about

³An autonomous agency of the executive branch whose members are appointed by the executive for four years, with the possibility of re-election.

taxpayer's challenges to tax assessments, requests and consultations on the part of the DGT's tax administrations. Municipal taxes are directly collected by each of the municipalities, which are autonomous in this regard. Social security contributions are administered by the Costa Rican Social Security Fund.

The DGT manages several central government taxes. The most important is income tax, which accounted for 46.3 per cent of total tax revenue in 2012, followed by general sales tax (30.3 per cent of the total). The DGT also oversees a number of taxes that account for a modest share of the tax take, such as the departure tax, tax on alcoholic beverages, real estate conveyancing taxes and others.

Table 4:
Annual tax collection, 2011 – 2012

(Thousands of United States dollars)

Taxes	2011	Percentage	2012	Percentage
Income tax	1 468 375	48.0	1 744 675	46.3
General sales tax	930 562	30.4	1 143 926	30.3
Tax on fuels	266 241	8.7	380 673	10.1
Tax on vehicles, boats and aircraft	150 883	4.9	199 388	5.3
Departure tax	42 352	1.4	49 632	1.3
Excise duty	46 141	1.5	50 719	1.3
Tax on alcoholic beverages	46 922	1.5	55 446	1.5
Tax on non-alcoholic beverages and soaps	45 817	1.5	54 510	1.4
Real estate conveyancing tax	33 760	1.1	40 992	1.1
Vehicle, boat and aircraft transfer tax	24 226	0.8	25 332	0.7
Tobacco production tax 9028	0	0.0	19 923	0.5
Casino and gaming tax	511	0.0	418	0.0
Education and culture stamp duty	932	0.0	586	0.0
Housing solidarity tax	4 386	0.1	5 162	0.1
Total	3 061 108	100	3 771 381	100.0

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

In February 2013, the DGT had 971 employees across all its offices in the country. Some 29 per cent worked on central operations such as regulatory, collection and inspection duties; and 71 per cent worked in the various regional directorates that are subdivided into 10 tax administrations and the Directorate of Large National Taxpayers, spread throughout the country.

Table 5:
Number of officials in the Directorate General of Taxation

(February 2013)

Level	Number	Percentage
Central level	279	29
Operational level	692	71
Total	971	100

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

On 31 December 2012, there were 600,212 active taxpayers overseen by the regional units throughout the country and managed by means of two computer systems: the Digital Tax System and the Integrated Tax Administration Information System (SIIAT).

Some 487 of the total are large taxpayers who report to the Large Taxpayer Directorate. These receive a personalized service from the administration because they account for 71 per cent of total tax revenue; they are managed via the Digital Tax System.

The latter also oversees the 605 taxpayers that are termed “large territorial enterprises” (GETES). A group of 710 medium and small taxpayers are also included in this system because of their importance.

Medium and small taxpayers comprise 598,410 legal entities and individuals answering to the various DGT agencies. The largest concentration of taxpayers (44 per cent) is overseen by the tax administrations of San José East and West.

The DGT has developed the following systems and assistance tools for presenting sworn tax returns.

Table 6:
Active taxpayers under the Directorate General of Taxation, 2012

System	Type of taxpayer	Number	Percentage
Digital Tax System	Large taxpayers	487	0.08
	GETES	605	0.10
	Small and medium taxpayers	710	0.12
Integrated Information System for Tax Administration (SIIAT)	Small and medium taxpayers	598 410	99.70
Total		600 212	100.00

Source: Sub-Directorate of Single Tax Registry, Directorate of Collections, Directorate General of Taxation, Ministry of Finance, Costa Rica.

Table 7:
Active taxpayers, 2012

Type of taxpayer	Number	Percentage
Large taxpayers	487	0.08
Tax administrations	599 725	99.92
San José	263 873	43.96
Alajuela	68 473	11.41
Cartago	57 739	9.62
Heredia	64 417	10.73
Guanacaste	35 689	5.95
Puntarenas	24 432	4.07
Limón	27 083	4.51
North region	31 613	5.27
South region	26 406	4.40
Total	600 212	100.00

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

(a) SIIAT

This is the system for registering the transactions carried out by all taxpayers and the tax administration's actions in relation to them. Currently it is the registration, management and control platform for small and medium taxpayers.

(b) Digital tax system

This is a comprehensive tax management model based on e-government strategies. It allows taxpayers to undertake bureaucratic formalities, file returns, pay taxes, resolve queries and comply with other tax obligations through the Internet, without having to leave their home or office. This system is only available for a group of taxpayers (large, GETES and some others).

(c) Tribunet

This is a technical tool that enables those who begin economic activities to carry out the registration formalities and to modify data, as well as to file the tax return and pay the special tax contribution FONATEL D.177 and radio spectrum reserve fee D.176.

(d) EDDI (Elaboración digital de declaraciones de impuestos — Digital preparation of tax returns)

This system allows the taxpayer to prepare the following tax forms:

- Sworn income tax return D.101
- Sworn general sales tax return D.104
- Official payment receipt D.110.

(e) TASABAN

This system allows users to assess the amount of tax and stamps levied on movable and immovable property by provisions of the national register.

(f) Tributación Directa y Conectividad — Direct Tax and Connectivity

This system enables companies to file the returns created by EDDI and make payment through banks that have a connectivity agreement.

(g) Declara 7

This is a system for filing what are termed “information tax returns” via the Internet.

In 2012, the DGT received about 3 million returns. Some 80.2 per cent were received electronically by means of the various systems that the DGT has made available to taxpayers. Prominent among these are Conectividad and EDDI, which account for more than 50 per cent of returns.

Table 8:
Received returns, 2012

Type of return	2012	Percentage
Standardized (paper)	577 317	19.8
Electronic	2 335 860	80.2
Digital tax system	53 007	1.8
Tribunet	5 315	0.2
EDDI	581 896	20.0
Tasaban	36 348	1.2
Conectividad	1 434 214	49.2
Declara 7 (informative)	225 080	7.7
Total	2 913 177	100.0

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

To carry out its activities, the Ministry of Finance allocates an annual budget to the DGT, according to the needs of each of its divisions. The DGT's executed budget for 2012 was US \$51 million. The most important item is staff remuneration, which accounts for almost 70 per cent of the budget. The second most important is services, at 25 per cent, because the DGT outsources several services such as computer equipment, printing and others. In 2012, the executed budget was equivalent to 1.35 per cent of tax revenue and 0.11 per cent of GDP.

Table 9:
DGT budget

(Thousands of United States dollars)

Item	2012	Percentage
Remuneration	35 095	68.8
Services	12 832	25.1
Materials and supplies	335	0.7
Durable goods	1 466	2.9

Table 9: (cont'd)

Item	2012	Percentage
Current transfers	1 302	2.6
Special accounts	1	0.0
Total	51 032	100.0
Percentage of collection	1.35	
Percentage of GDP	0.11	

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

1.2.2 Tax system

Tax revenue comes from several taxes but chiefly from two: income tax, whose base is income from the productive activities of legal entities and individuals; and sales tax.

Income tax

Income tax in Costa Rica is territorial, meaning that it applies to individuals and to legal entities. The tax is levied on income originating from a Costa Rican source only; Costa Rican laws do not tax income derived from a foreign source. The tax is assessed and collected through a self-return system. There is also a set of specific withholdings on salaries, interest, dividends, foreign services rendered by non-resident aliens, and remittances abroad on behalf of non-resident individuals or legal entities.

The tax base is net income for legal entities and individuals engaging in income-generating activities. Net income is calculated as gross income after deductions. It includes income from real estate, capital investment and other business activities. It also includes any increase in equity during the tax year that cannot be justified by the declared or registered income.

The tax applies to income from Costa Rican sources received or accrued by individuals or legal entities domiciled in the country, as well as any other Costa Rican source of income not exempt by law. The fiscal year is from 1 October of one year to 30 September of the next,

though other fiscal periods may be allowed for taxpayers depending on their economic activity.

Income tax should be declared and paid quarterly in partial payments, but the tax administration may authorize monthly payments as advances on each instalment. To determine the payable tax by the end of the respective fiscal year, the taxpayer must multiply net income by the tax rate. The tax rate is 30 per cent for legal entities.

In the case of MSMEs constituted as legal entities whose gross income in the fiscal period does not exceed 95,447,000 colones (¢), the rates are as follows (effective for the fiscal period 2013):

- (a) Up to ¢47,451,000 of gross income: 10 per cent; and
- (b) Up to ¢95,447,000 of gross income: 20 per cent.
- (c) The following are not subject to tax:
 1. The State, municipalities, autonomous and semi-autonomous State institutions that are exempt by virtue of special legislation, and State universities.
 2. Political parties and religious institutions of whatever creed, for income obtained for the maintenance of worship and providing non-profit social services.
 3. Companies operating under the free trade zone regime in accordance with Law 7210 of 23 November 1990.
 4. The trade unions, foundations and associations declared by the executive branch as providing a public service, if their received income and assets are all intended to be exclusively for public use or charity and under no circumstances are directly or indirectly distributed among their members.
 5. Cooperatives duly organized under Law 6756 of 5 May 1982 and its amendments.
 6. Solidarity associations.
 7. The Life Insurance Corporation of National Education, National Association of Teachers' Savings and Loan, and the Multi-Service Corporation of National Teaching.

8. Civil associations of small- or medium-sized agricultural producers of goods and services that seek to provide technical assistance and facilitate the acquisition of low-cost agricultural inputs; and that seek alternative means of production, marketing and technology as long as they market solely agriculture inputs on their premises. Additionally, the income they receive and their assets can only be used for the purposes that such associations were set up to meet, and under no circumstances can the income or assets be directly or indirectly distributed among their members.
9. The micro, small and medium organic producers registered with the appropriate office of the Ministry of Agriculture and Livestock, which for a year have been transitioning towards certification as organic producers; this exemption is for a period of ten years as long as such producers continue to meet the conditions that gave rise to the exemption.
10. The education and administrative boards of public teaching institutions.
11. The San José Orphans' Hospice.

The following scale of fees is applied to individuals with their own income-generating activities (effective for the fiscal period 2013):

- (a) Annual income up to ₡3,171,000 is tax-exempt;
- (b) Annual income between ₡3,171,000 and ₡4,735,000 is taxed at 10 per cent;
- (c) Annual income between ₡4,735,000 and ₡7,898,000 is taxed at 15 per cent;
- (d) Annual income between ₡7,898,000 and ₡15,827,000 is taxed at 20 per cent; and
- (e) Annual income above ₡15,827,000 is taxed at 25 per cent.

Individuals with income-generating activities who also received, during the pertinent fiscal period, income derived from wage-labour, pension or retirement benefits shall subtract from the above-mentioned exempt amount the segment of exempt income from the income received from wage-labour, pension or retirement benefits.

If the latter exceeds the above-mentioned exempt amount, the only pertinent amount shall be that exempt from tax on wage labour, pension or retirement benefits, or other income from personal services, in which case the net income obtained by individuals with income-generating activities will not be exempt but subject to the 10 per cent levy stipulated in (b) above.

Individuals who are wage-earning employees are subject to withholding by their employer and are subject to the following rates according to their gross salary.

- (a) Up to ₡714,000 per month: exempt;
- (b) Between ₡714,000 and ₡1,071,000: 10 per cent.
- (c) Above ₡1,071,000: 15 per cent.

Sales tax

The sales tax is levied on the transfer of title, free of charge or against payment, on all forms of goods, as well as on services taxed by law. Individuals or legal entities, de jure or de facto, whether public or private, that sell or provide services on a regular basis are considered taxpayers, as are entities of any nature that import goods.

The amount of tax is determined by applying the rate established in Article 10 of the General Sales Law (currently 13 per cent) on the net sale price, including excise duty when the goods in question are subject to it.

The tax to be paid to the Treasury is determined by the difference between the tax debit and credit, duly supported by substantiating documentation and recorded in the taxpayers' accounts.

Tax on real estate transfer

This taxes transfers, under any title, of real estate registered or not in the Public Registry of Property. The obligation to pay the tax arises at the time and date of execution of the deed in which the legal status of the transfer of property is done.

Table 10:
Tax system: Rates

Taxes	Tax rates (percentage)
Income taxes	30%
Import/export tariffs	Depending on the product
Sales tax	13%
Duties	1%
Real estate tax	0.25%
Tax on transfer of real estate	1.50%
Municipal patent tax	0.30%
Withholding tax on royalties, fees and dividends	up to 25%
Interest tax	8.00%
Income tax for non-residents	10% for employees; otherwise 15%

Source: Research Department, Costa Rican Coalition for Development Initiatives (CINDE).

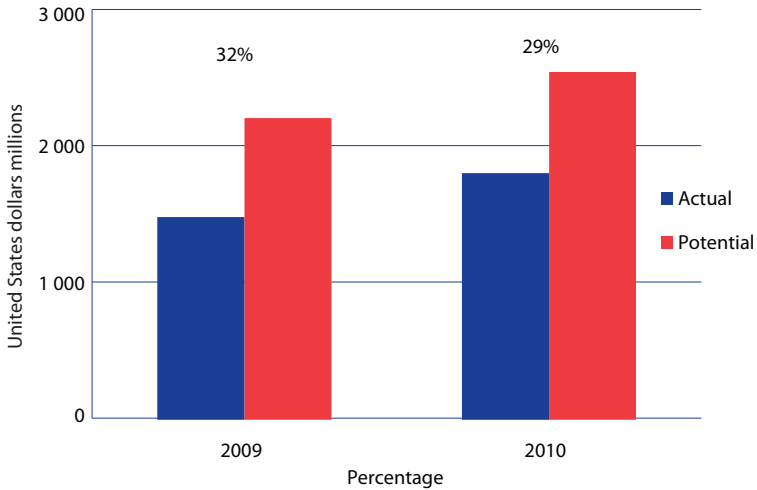
1.2.3 Tax evasion studies

According to Ministry of Finance estimates, evasion of the general sales tax stood at 29 per cent in 2010, or 2 per cent of GDP. This was three percentage points lower than in 2009. It should be noted that Costa Rica has one of the lowest evasion rates in the region, even though the sales tax regime is complex (Ministry of Finance, 2011).

According to the Ministry's study, the evasion rate for income tax on individuals was 45.8 per cent in 2010. It is worth noting the high levels of evasion among independent professionals who engage in income-generating activities, where evasion levels reach 90 per cent (0.9 per cent of GDP). Among wage-earners the level is 12 per cent.

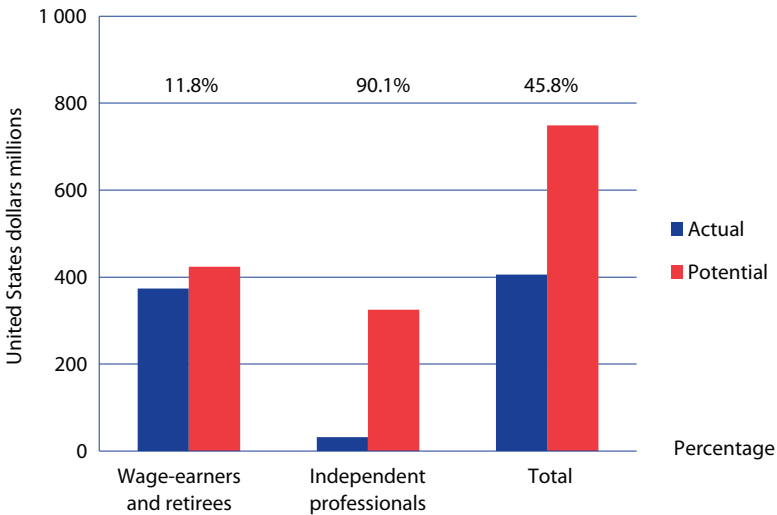
Legal entities had a non-compliance level of 60 per cent for income tax (2.9 per cent of GDP), with little change from 2009. It is probable that avoidance practices are also happening in this segment. The total level of evasion was equivalent to about 5.8 per cent of GDP.

Figure 1:
Evasion of sales tax, 2009 – 2010



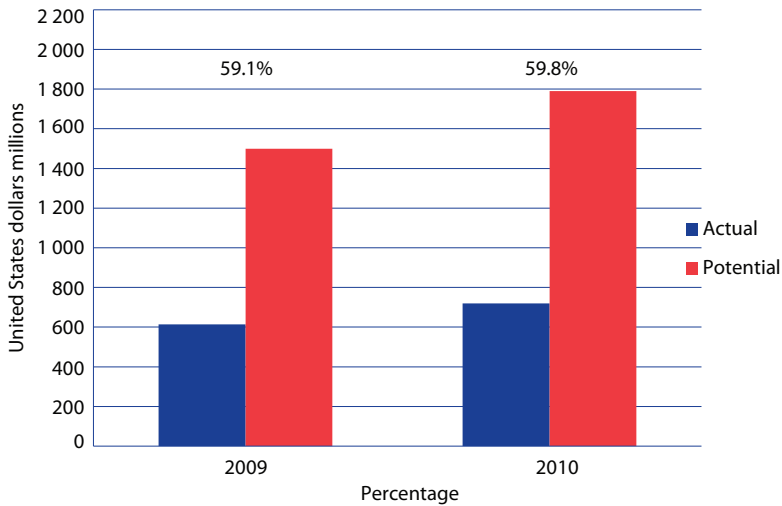
Source: Ministry of Finance, Costa Rica (2011).

Figure 2:
Evasion of individual income tax, 2010



Source: Ministry of Finance, Costa Rica (2011).

Figure 3:
Evason of income tax on legal entities, 2009 – 2010



Source: Ministry of Finance, Costa Rica (2011).

1.2.4 Tax spending

In its study on tax spending,⁴ the Ministry of Finance estimated that such expenditure increased to 5.81 per cent of GDP in 2010. Some 63.3 per cent was accounted for by the general sales tax and 31.3 per cent by income tax (Fiscal Studies Program, School of Economics, National University of Costa Rica, and the General Directorate of the Treasury, 2011).

As regards tax spending associated with general sales tax, the biggest share of spending (93 per cent) stems from exemptions to the tax on goods. This is because of exemptions to general sales tax in customs and purchases.

⁴Tax spending is defined as the level of income forgone by a government by granting a different tax treatment generally applied in national tax legislation which aims to benefit or promote certain activities, sectors, regions or taxpayer groups.

Table 11:
Tax spending, 2010

(Millions of United States dollars)

Category	Amount	Percentage of GDP
Sales	1 267	3.68
Income	630	1.82
Others	106	0.31
Total	2 002	5.81

Source: Ministry of Finance, Costa Rica (2011).

1.3 Main reforms to improve tax compliance in MSMEs

1.3.1 Law on strengthening small and medium enterprises⁵

Costa Rica's tax system does not offer a general definition of micro, small and medium enterprises. For other public sector processes, however, some agencies have devised a definition. One of these is the Costa Rican Social Security Fund, which is tasked with administering social contributions, and offers this definition: microenterprises are those with 1–5 workers; small enterprises are those with 6–30 workers; medium-sized enterprises have between 31 and 100 workers; and large enterprises have more than 100 workers.

Table 12:
Number of enterprises by economic activity, 2012

Type of enterprise	Micro (1 – 5 workers)	Small (6 – 30 workers)	Medium (31 – 100 workers)	Large (more than 100)	Total
Commerce	13 098	4 074	621	175	17 968
Services	8 490	1 544	242	114	10 390
Real estate activities	7 579	1 986	482	266	10 313
Agriculture	4 976	1 174	196	153	6 499
Industry	3 064	1 435	333	237	5 069
Transport and communications	2 993	882	237	81	4 193
Hotels and restaurants	4 012	1 272	180	55	5 519
Construction	2 343	1 096	200	77	3 716

⁵Law 8262: Law on Strengthening Small and Medium Enterprises.

Table 12: (cont'd)

Type of enterprise	Micro (1 – 5 workers)	Small (6 – 30 workers)	Medium (31 – 100 workers)	Large (more than 100)	Total
Public administration and teaching	608	352	107	47	1 114
Financial	435	185	67	32	719
Others	23	11	4	0	38
Total	47 621	14 011	2 669	1 237	65 538

Source: Costa Rican Social Security Fund.

The Ministry of Economy, Trade and Industry, in Law 8262, “Law on Strengthening Small and Medium Enterprises”, defines small and medium enterprises (SME) in Article 3: “for all purposes of this law and of state or public institutions’ policies and programmes to support SMEs, micro, small and medium enterprises are understood to be any permanent production unit that has human resources, managed and operated either as individuals or legal entities, and engaged in industrial, commercial, services or agricultural activities in the area of organic farming.”

The distinction between micro, small and medium enterprises is determined from the results of the following formulas for the sectors specified below.⁶

(a) In the industrial sector:

$$P = ((0.6 \times pe/100) + (0.3 \times van/\text{¢}600.000.000) + (0.1 \times afe/\text{¢}375.000.000)) \times 100.$$

(b) In the commerce and service sectors:

$$P = [(0.6 \times pe/30) + (0.3 \times van/\text{¢}1.200.000.000) + (0.1 \times ate/\text{¢}375.000.000)] \times 100.$$

Where:

P: scores obtained by the company

pe: average number of staff employed by the company during the last fiscal period

⁶In General Regulations of Law 8262: Strengthening Small and Medium Enterprises.

van: value of net annual sales of the company in the last fiscal period

afe: value of the business's net fixed assets in the last fiscal period

ate: value of the business's total net assets in the last fiscal period.

The reference value of the parameters used is subject to annual review and updating by the Ministry.

Companies are classified on the basis of the P score obtained, with the following criteria:

- Microenterprise $P \leq 10$;
- Small enterprise $10 < P \leq 35$;
- Medium enterprise $35 < P \leq 100$.

In order to classify business activities such as industrial, commercial or service undertakings, the authorities use the categories set out in the most recent update of the International Standard Industrial Classification of all Economic Activities (ISIC).

To benefit from Law 8262, in addition to qualifying as micro, small or medium enterprises, businesses must meet at least two of the following legal requirements:

- (a) Payment of social dues, understood as payment of obligations to the Costa Rican Social Security Fund;
- (b) Tax compliance, understood as those related to the DGT;
- (c) Compliance with labour obligations, which refers to payment of the occupational risks policy.

To ensure that the benefits of the law are only granted to SMEs, companies must show through a notarized certification that a large company does not own more than 25 per cent of their capital stock.

Costa Rica's incentives policies for SMEs seek to build capacity in businesses and develop an entrepreneurial culture. To that end, the following programmes have been developed:

- Business incubators and accelerators programmes
- Entrepreneurship training programme

- National programme on local market chains
- National simplification procedures programmes
- National SME financing programme
- National public procurement programme.

1.3.2 Simplified regime

Costa Rica's tax system instituted the Simplified Tax Regime for Retailers and Bars. The simplified scheme was introduced in 1996 and applies to both sales tax and income tax. The scheme is limited to certain types of economic activities, including: bars, pubs, taverns and similar establishments; photographic studios; handmade footwear; furniture and accessories; pottery, ceramics and porcelain; structural metal products; florists; bakeries, restaurants, cafés, soda bars and other establishments selling food and/or beverages; small-scale fisher-folk; retailers; and taxis.

Taxpayers under this regime must present a quarterly return in the form of a physical document within the first 15 days of each quarter. Taxpayers apply to the total amount of quarterly purchases a specific factor per tax (general sales tax and income tax) of total taxable purchases.

To benefit from the scheme they must also comply with the following requirements:

- The amount of annual purchases does not exceed 150 base salaries
- The business has no more than five employees, excluding the taxpayer
- In the case of taxis, no more than one vehicle is involved in the activity
- The value of fixed assets does not exceed 350 base salaries.

Additionally, to facilitate the calculation and payment of the tax, companies in this regime are exempt from keeping full accounting. Companies need only keep a register of purchases that records purchases of goods, materials and supplies used to make products or provide services.

The taxpayer is not required to issue invoices, except when the value of an individual sale of each product exceeds 5 per cent of a base salary and upon a customer's request.

The taxpayer need keep only the receipts for purchases, not the records for all operations.

The factors applied vary according to the economic sector in which the company operates and are applied to purchases declared quarterly.

Companies may be reclassified under the general system on request for registration or reclassification. A change of regime may be also brought about by an audit on the part of the DGT.

Tax revenues under this regime reached 0.016 per cent of GDP in 2010 (Pecho Trigueros, 2012).

Table 13:
Simplified regime: Application factors

Income activity	Income	Sales
Bars, pubs, taverns or similar establishments	0.020	0.040
Retail merchants	0.010	0.020
Photographic studios	0.010	0.020
Handmade footwear	0.010	0.026
Manufacture of furniture and accessories	0.010	0.065
Manufacture of pottery, china, ceramics and porcelain	0.010	0.020
Manufacture of structural metal products	0.010	0.052
Florists	0.010	0.058
Bakeries	0.010	0.020
Restaurants, cafes, soda bars and other establishments selling food and/or beverages	0.020	0.040
Small-scale fisherfolk	0.025	
Medium-scale fisherfolk	0.033	
Taxis	0.5 by the number of kilometres driven	

Source: Decree 25514-H Simplified Tax Regime for Retail Merchants and Bars.

Chapter II

Tax transaction costs in Costa Rica

2.1 Methodological aspects of the country study

Tax transaction costs (TTC) have two components: administrative costs and compliance costs. Administrative costs are those incurred by the State to administer the tax system, while compliance costs are those incurred by taxpayers to comply with the system.

Tax transaction costs consist of:

$$\text{TTC} = \text{CC} + \text{AC}$$

Where:

TTC = tax transaction costs

CC = compliance costs to the taxpayer

AC = administrative costs of the DGT.

In line with the United Nations-DESA and CIAT methodology,⁷ the measurement was carried out as follows:

Phases of the study on measuring TTCs in SMEs in Costa Rica

Phase 0. Start-up
Identifying the general context; detailed understanding of the regulatory and administrative framework of the tax(es) to be analysed. It is important to understand the institutional framework, procedural maturity and political support for a possible reform geared to tax simplification.
Phase 1. Preparatory
Defining the undertaking's financial resources and training the local technical team. In this phase it is important to analyse the financial viability of hiring an external organization to conduct the survey, as well as the quality of the internal information that will allow the TTCs to be determined.

⁷See Part One, chapter II, para. 2.1, of the present study.

Phase 2. Analysis		
	Step 1	Identifying the information obligations, requirements and tax transactions, as well as the DGT's main internal indicators on the tax cycle
	Step 2	Identifying the regulations relating to taxes and procedures
	Step 3	Identifying the segments of companies relevant to the study
	Step 4	Identifying the target group and transaction frequency
	Step 5	Identifying related regulations
Phase 3. Measurement		
	Step 6	Measuring compliance costs
	Step 7	Measuring administrative costs
Phase 4. Reports		
	Step 8	National-level extrapolation of the data obtained
	Step 9	Final results report and determination of the simplification plan

Source: United Nations-DESA and CIAT. Part One of the present study.

2.1.1 Definition of micro, small and medium enterprises (MSME)

For the purposes of this study, MSMEs are defined in line with the proposal made in Part One of the present United Nations-DESA and CIAT study, as illustrated below.

Table 14:
Definition of MSMEs: Methodology for measuring transaction costs

Criteria	Microenterprise	Small enterprise	Medium enterprise
Number of workers	Up to 10	Up to 50	Up to 200
Annual sales	Up to US \$100 000	Up to US \$2 million	Up to US \$5 million

Source: United Nations-DESA and CIAT. Part One of the present study.

Given that Costa Rica has a simplified tax regime that includes MSMEs (albeit not exclusively), this study distinguishes that

group of companies so as to assess the tax transaction costs under that regime. Hence, a distinction is made between companies subject to the traditional or general regime and those that fall under the simplified regime.

The source information was based on 2012 annual income returns, as well as on information from the quarterly returns filed by companies subject to the simplified regime. As companies in the simplified regime do not declare sales but purchases, the latter were used as a proxy for sales in designing the sample,⁸ so as to ensure a standardized group.

The tax administration's databases do not contain information on the number of workers per company. To determine the target population of the study, that variable was construed from a survey because the information was collected in the related fieldwork, discussed further below.

In defining the target group, those companies that had no tax activity were not considered — that is to say, those that did not submit returns or submitted information indicating activity equivalent to zero. On the basis of this assessment, it was possible to detect that only a small share of taxpayers cancelled a registration or reported a cessation of activity. Hence, the population subject to study was defined as follows:

Table 15:
Businesses registered with the Directorate General of Taxation:
Population of the transaction cost study (number of companies)^a

Company size	Population		
	General regime	Simplified regime	Total
Micro	276 746	32 692	309 438
Small	34 951	182	35 133
Medium	1 798	0	1 798
Total	313 495	32 874	346 369

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

^aThe number of companies was determined by taking account of the amount of sales and purchases, respectively, in each regime.

⁸Variable approaching the phenomenon to be studied.

2.1.2 Collection of information

In line with the United Nations-DESA and CIAT study, the administrative costs were estimated by using budgetary information provided by the DGT. For compliance costs, the estimate required information from the taxpayer, which was obtained through a survey, described further below.

2.1.3 Taxpayer survey

The survey design took into consideration the model survey proposed in the above-mentioned United Nations-DESA and CIAT study (Part One, annex). That survey was taken as a starting point and adapted to the particular characteristics of the Costa Rican tax system.

Adaptation of the survey involved input from officials of the Taxpayer Service Directorate and the Directorate for Integrated Tax Management, whose operational experience and knowledge of taxpayers were crucial in adapting the survey's terminology, as well as the extent and scope of questions. The survey conducted is presented in annex IV to this country study.

A market research company, located in Costa Rica, was hired to undertake the data collection. The methodology was face-to-face, 20-minute survey interviews with the taxpayer.

The team comprised 16 interviewers who, with training from the DGT's Directorate for Integrated Tax Management, began the process by telephoning taxpayers to make appointments.

Once designed, the survey was evaluated through a fieldwork test whereby one of the interviewers put the questions to an accountant in the offices of the market research company. This was transmitted virtually so that the rest of the team could see how it was done, and so as to remove any remaining doubts about the definitions and scope of the questions.

In fieldwork the following day, each interviewer had to conduct at least two surveys of companies in a pre-selected area. These were reviewed in the company by staff of the Directorate for Integrated Tax Management and supervisors from the market research company.

2.1.4 Sample selection criteria

During the work undertaken with the team from the Directorate for Integrated Tax Management, it was agreed that the selection criteria for the sample should be as follows:

- Active taxpayers (non-delinquent filers for the 2012 fiscal period) up to 28 February 2013 within the general and simplified tax regimes.
- Large taxpayers and GETES were excluded.
- All sectors, except for the public administration, education and agriculture sectors, were included.
- The scope was those companies active in the San José greater metropolitan area, from the counties of Atenas in Alajuela province to Paraíso in Cartago province, and from Alajuelita in San José province to Santa Bárbara in Heredia Province: a total of 31 counties and 163 districts.

Simple random sampling was used, with the following result:
Where:

$$N = \frac{P \cdot \alpha^2 \cdot Z^2}{(P - 1) \cdot e^2 + \alpha^2 \cdot Z^2}$$

N = sample value

P = number of taxpayers among the ranks of SMEs

α = standard deviation of the population (suggested 0.5)

Z = confidence level (95 per cent)

e = acceptable limit of error (3 per cent).

$$P = 346,369$$

$$\alpha = 0.5$$

$$Z = 95 \text{ per cent}$$

$$e = +/- 3.5 \text{ per cent}$$

$$N = 780$$

Hence, the sample yielded at least 780 valid surveys, which were also grouped into proportions for both the general and simplified regimes.

2.2 Compliance costs⁹

The tax compliance cost component can be expressed as follows:

$$CC = IC + EC$$

Where:

TTC = taxpayer's tax compliance cost

CC = internal costs

AC = external costs.

The compliance cost is the sum of internal and external costs. Internal costs include both labour and non-labour costs. For present purposes, direct labour costs are those incurred when a business uses its own staff to work on activities related to compliance with the company's tax obligations. Internal costs also include additional non-labour costs incurred by the company.

External costs are defined as those paid by a business to third parties in order to comply with its tax obligations, the service rendered by the third party requiring payment by the business.

2.2.1 Calculating internal costs

One of the main difficulties in measuring compliance costs is determining the time (hours per month) that taxpayers spend on complying with their tax obligations. The task of converting time into monetary values depends on the accurate estimate of the number of hours worked and the value assigned to each hour.

As internal costs are a result of work undertaken by a business's internal staff, they were calculated according to the time spent by them on tasks required for tax compliance. Thus, internal costs are expressed as follows:

$$IC = T_A * V_A + AS$$

Where:

IC = taxpayer's internal costs

⁹See Part One, chapter II, para. 2.2, of the present study.

T_A = time (in hours per year)

V_A = value of time

AS = administrative spending.

2.2.2 Calculating the number of hours

To calculate the number of hours per year that an average taxpayer spends on complying with tax obligations, a taxpayer profile was drawn up for both the general and simplified regimes. These profiles were used to annualize the data so that the information on cost was treated uniformly and could be standardized into annual data. The profile is a concept mentioned in the United Nations-DESA and CIAT study, which provides the methodology underlying this country study.

For taxpayers, the refunds, claims and tax control processes are non-periodic. For the purposes of this study, however, it was assumed that all taxpayers participate at least once in a process during a year.

Profile of taxpayer in the general regime

- Submits 12 general sales tax returns (Form D-104);
- Submits one annual income return (Form D-101);
- Submits one Annual Summary Statement of Customers, Suppliers and Specific Costs (Form D-151);
- Submits three self-assessments for partial payment of income tax (Form D-108);
- Submits 12 withholdings at source (Form D-103);
- Submits one request for a refund;
- Submits one claims request; and
- Receives one visit/is contacted once for tax control reasons.

Profile of taxpayer in the simplified regime

- Submits four simplified tax regime returns (Form D-105);
- Submits one Annual Summary Statement of Customers, Suppliers and Specific Costs (Form D-151);
- Submits one request for a refund;

- Submits one claims request; and
- Receives one visit/is contacted once for tax control reasons.

As regards the submission of forms, the survey asked taxpayers how long it took to register, complete and submit a return, and pay each monthly, quarterly and annual tax obligation. If a taxpayer mentioned that the process of completing a return took a number of hours (if the taxpayer indicated minutes these were divided by 60 so as to have hourly measurements and thereby aid interpretation) per month, this value was multiplied by 12 to get the annual data.

These times were accumulated and extrapolated to an annual period using the expansion factor for each kind of taxpayer and tax regime. The expansion factor was interpreted as the number of companies in the population under study, which represents a business in the sample.

The estimate of the total given for a variable was obtained by weighting the value of the variable by its expansion factor and then adding all the companies in the sample.

As regards refunds, claims and tax control, it was assumed that these processes occur only once a year and therefore the survey data corresponds to an annual period.

To calculate the cost to the taxpayer, this study took as an average salary the minimum salary of an accountant with a bachelor's degree, published by the Ministry of Labour and Social Security¹⁰ for the second half of 2012. This salary was set at ₡441,531. Using the average exchange rate of 31 December 2012 of ₡508.195, the average hourly wage is US \$4.80.

2.2.3 Calculating administrative costs and spending

In complying with their tax obligations, taxpayers substantiate expenditures with printed invoices, documents, purchase ledgers, authentications and accounting registers. The survey required that the taxpayer estimate these expenses on a monthly basis and thus include them in the calculation of compliance costs.

¹⁰<http://www.mtss.go.cr/>.

There are five elements to this calculation:

1. External expenses incurred in registering, issuing invoices, completing forms, keeping accounting ledgers, authentications and so on.
2. Other expenses caused by the tax control actions of the tax administration.
3. Additional expenses from a refund request.
4. Additional expenses from a claims request.
5. Additional expenses on an external adviser.

Each of these expenditures was aggregated by taxpayers on a monthly basis so that they could be extrapolated to annual data.

2.2.4 Tax compliance costs

On the basis of the sample data, each element per tax process was evaluated, including registration, return and payment, tax control, refunds and claims. All the hours were consolidated (in line with the profile), multiplied by the corresponding salary, and adding the administrative and external costs for the taxpayers in the sample. The calculations were made for each population subset — that is, type of regime and business.

The following results were obtained for the 842 companies in the sample. According to the calculation of sample size, the number of valid surveys should be 780, but the company hired to survey 800 businesses actually surveyed 842.

Table 16:
Survey findings by type of business

Business size	Sample		
	General regime	Simplified regime	Total
Micro	531	203	734
Small	96	6	102
Medium	6	0	6
Total	633	209	842

The following results were obtained for the 842 companies in the sample.

Table 17:
Annual tax compliance costs: Sample of 842 taxpayers, 2012

(Thousands of United States dollars)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	1 206	208	20	1 434
Simplified regime	226	8	0	234
Total	1 433	216	20	1 668

It should be noted that there is no information on the simplified system for medium-sized companies because by definition this group is not included in the regime. The determination of a simplified-regime enterprise is made according to its activities and a certain number of purchases; there is no classification by company size.

The total amount (total cost) is the simple sum of each of the subsets of the population under study.

These data were extrapolated by the expansion factors calculated using information on the sample, divided by the total population under study, resulting in the following values.¹¹

Table 18:
Expansion factors

Regime	Business size		
	Micro	Small	Medium
General regime	521	364	300
Simplified regime	161	30	0

¹¹The expansion factor for a study based on a sample is the amount that serves as a multiplier and allows the sample data to be expanded and applied to the population under study. It is calculated on the basis of the selection probability of the elements in the sample, being the inverse or reciprocal probability of the selection of the elements.

As can be seen, the expansion factors were fairly uniform. In the general system there were 521, 364 and 300 of each type of business, respectively. The numbers were somewhat diverse in the simplified regime as it is representative of each type of business in the population. In the case of small businesses in the simplified regime, one business represents 30 businesses in the population.

Table 19:
Annual tax compliance costs: Population, 2012

(Thousands of United States dollars)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	628 749	75 661	5 851	710 261
Simplified regime	36 437	239	0	36 676
Total	665 186	75 900	5 851	746 937

Total compliance costs in Costa Rica for 2012 are estimated at US \$746 million, or 1.67 per cent of GDP. Analysing by type of business, microenterprises — given their number and degree of concentration — accounted for US \$665 million of this cost, or 1.49 per cent of GDP. The figures for small and medium enterprises, given their limited representation in the study, were just 0.17 per cent and 0.01 per cent, respectively.

Table 20:
Tax compliance costs, 2012

(Percentage of GDP)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	1.41	0.17	0.01	1.59
Simplified regime	0.08	0.00	0.00	0.08
Total	1.49	0.17	0.01	1.67

Compliance costs were equivalent to 2.14 per cent of total sales. In the microenterprise segment, compliance costs were equivalent to 4.30 per cent of total sales, while for small and medium enterprises the figures were 0.48 per cent and 0.16 per cent, respectively.

As there was no information available on the sales of the population under study, and because the survey only asked about the sales ranges in which a company is located, sales were estimated using the average of each range and multiplying it by the expansion factors of each kind of company, giving total sales by company type and tax regime. This information was used to calculate the indicators in Table 21.

Table 21:
Tax compliance costs, 2012

(Percentage of total sales)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	4.06	0.48	0.16	2.04
Simplified regime	0.24	0.00	0.00	0.11
Total	4.30	0.48	0.16	2.14

2.2.5 Average costs by company

For businesses in Costa Rica, the tax system generates an average annual cost of US \$2,156. This was calculated by dividing the total cost by the number of companies in the population. Total costs for medium enterprises were higher on average (US \$3,395) than costs for microenterprises (US \$2,248). It can be concluded that certain factors dictate that the larger the business, the higher the fixed costs generated, as will be seen below, by external costs and spending.

Table 22:
Tax compliance costs: Average cost per business

(United States dollars)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	2 272	2 165	3 254	2 266
Simplified regime	1 115	1 316	0	1 116
Total	2 150	2 160	3 254	2 156

Analysis of these costs as a percentage of sales, however, reveals that microenterprises have a higher burden. A company in the general system faces a cost of up to 4.5 per cent of sales. This cost falls

as the company's size increases: for a medium company the cost is up to 0.2 per cent of sales. Thus, compliance costs are regressive for Costa Rican businesses, being 20 times more onerous for microenterprises than for medium enterprises.

Table 23:
Tax compliance costs: Cost as a percentage of sales, 2012^a

(Percentage)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	4.5	0.5	0.2	2.2
Simplified regime	2.2	0.3	0.0	1.1
Total	4.3	0.5	0.2	2.1

^aSales calculated on the basis of the average of the defined range; total sales calculated weighted by the number of taxpayers by company size.

Table 24:
Tax compliance costs: Cost per general regime business, hours used, 2012
Annual average cost

(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Number of annual hours	129	161	111	134
Annual cost	623	776	537	649

To calculate the number of hours that a company in Costa Rica spends on average to comply with its tax obligations, the average times of the companies in the sample for each of the tax processes to which company staff devoted time were used.

The processes of filing returns, payment, claims and tax control were added to the phases of gathering information and registration¹² (that is to say, neither external costs nor spending were considered)¹³ in order to obtain an average of total hours per company per year.

¹²The taxpayer profile was used so as to be able to extrapolate to annual data.

¹³Data that the taxpayer was asked to calculate in the survey.

Companies operating under the general regime spent an average of 134 hours a year on complying with their tax obligations. Multiplying this number of hours by the average hourly wage gave an annual cost of US \$649 per year. These hours were taken as analogous to the personnel cost that the tax operation represents in a company.

Table 25:
Tax compliance costs: Cost per simplified regime company,
hours used, 2012
Annual average cost

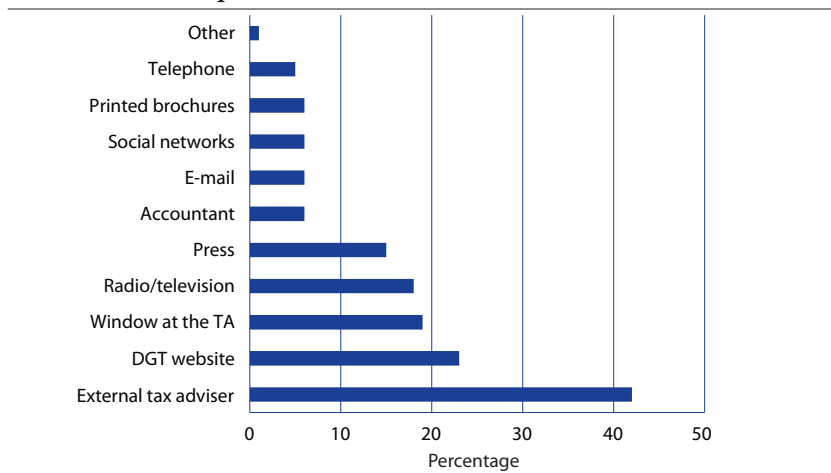
(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Number of annual hours	66	78	0	66
Annual cost	317	375	0	320

Businesses under the simplified regime spent 66 hours a year on average, at a cost of US \$317.

Figure 4 shows that 42 per cent used an external tax adviser as a means of obtaining tax information; only 23 per cent used the DGT website; and just 19 per cent acquired information at the tax administration offices.

Figure 4:
Means used to acquire tax information



When taxpayers were asked why they hired an external adviser, 76 per cent said that the latter provides more detailed information than the TA; 67 per cent cited a lack of time to go to the TA; and 39 per cent said that TA officials did not offer satisfactory explanations to queries.

Some 26 per cent considered it cheaper to hire a tax adviser. Members of this group believe that the opportunity cost of the compliance work is high and therefore prefer to hire someone to do it.

Table 26:
Reasons for hiring an external adviser

(Percentage)

The tax adviser provides more detailed information than the TA	76
Because of a lack of time to go to the TA to request information	67
TA officials do not adequately address queries	39
There was little information at the TA window or on the DGT website	34
It is cheaper to hire an external tax adviser	26
Other	4

It was of interest to note that a tax adviser filled a gap that taxpayers encountered because of what they regarded as limitations on the information provided by the TA. This could prompt consideration of ways of improving procedures and reducing the external costs incurred by taxpayers. More effective training and deployment within the tax system could forge a direct link between improved learning and lower compliance costs, as taxpayers would have less need to resort to external advisers.

Moreover, it is also possible to regulate the role of external advisers, who have a greater capacity than the taxpayer to deal with the tax system, either because of training (in tax accounting) or experience in the field. Hence, the TA should strike a balance in offsetting the taxpayer's opportunity cost.

2.2.6 Information and registration

In obtaining information and registering, the taxpayer has to face three sub-processes: registering or updating data; learning about tax

issues; and accounting records. The survey asked taxpayers how many hours they spent on these activities.

Companies spent an average of 44 hours addressing these three processes. The cost is slightly higher for medium-sized firms than for micro- and small enterprises. This is because of the time spent on completing the accounting record: the bigger the company, the greater the complexity in the tax system, and thus more time spent on bookkeeping.

Table 27:
Tax compliance costs: General regime — information/registration, hours, 2012
Annual average cost

(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Annual hours	42	49	51	44
Learning	13	15	8	13
Registration or updating	2	2	3	2
Accounting records	28	32	41	29
Annual cost	205	238	247	210

As regards registration, on average, this took two hours. Only 4 per cent registered last year, however, and so the hours have been overvalued for new taxpayers inasmuch as online registration and updating of data were introduced only recently. According to the DGT, on average, this process takes less than an hour.

It is apparent that irrespective of the type of registration and of the regime applied to the taxpayer, there are no statistical differences in the time needed to obtain information and learn about tax obligations. Most take an average of one hour or less per month.

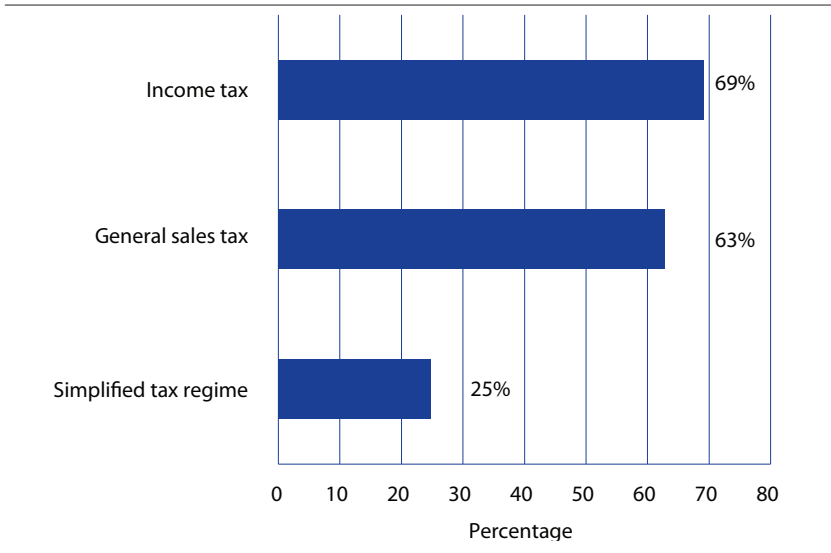
Taxpayers were asked to which taxes they were subject in the previous year. While simplified taxation includes income tax and the general sales tax, these groups are exclusive, so 25 per cent said they are in the simplified regime while 69 per cent and 63 per cent reported being subject to general sales tax and income tax, respectively.

Table 28:
Time to acquire information

(Percentage)

Time per month to acquire information/Learn about tax obligations	Type of business			
	Micro	Small	Medium	Total
Less than half an hour	28	24	33	27
Between half an hour and 1 hour	22	16	33	21
1 hour	26	30	33	26
Between 1 and 2 hours	0	0	0	0
Between 2 and 3 hours	17	24	0	17
More than 3 hours	3	4	0	3
Do not know/no response	4	3	0	3
Total	100	100	100	100

Figure 5:
Taxes to which taxpayers were subject last year



The information disaggregated by economic sector reveals that the distribution is fairly uniform — that is to say, there is no apparent concentration of economic sectors in the simplified regime except among craftspeople, where the rate is 100 per cent.

Figure 6:
Distribution of taxes to which the business was subject
by economic sector

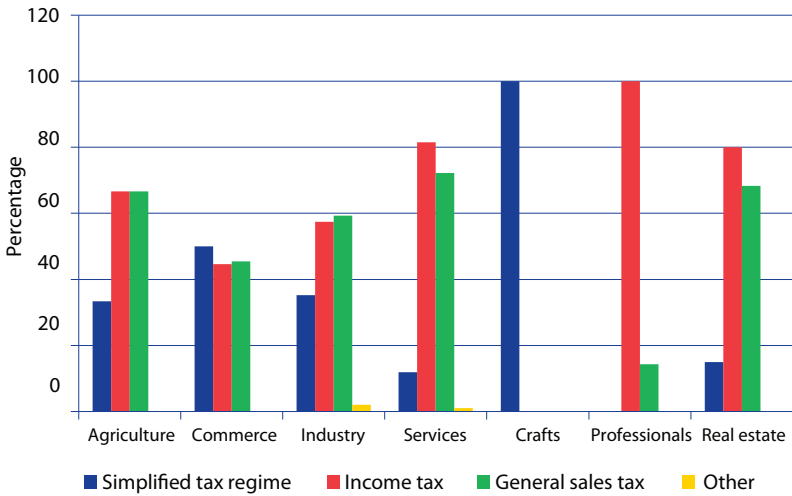


Table 29:
Time per month to acquire information/Learn about tax obligations

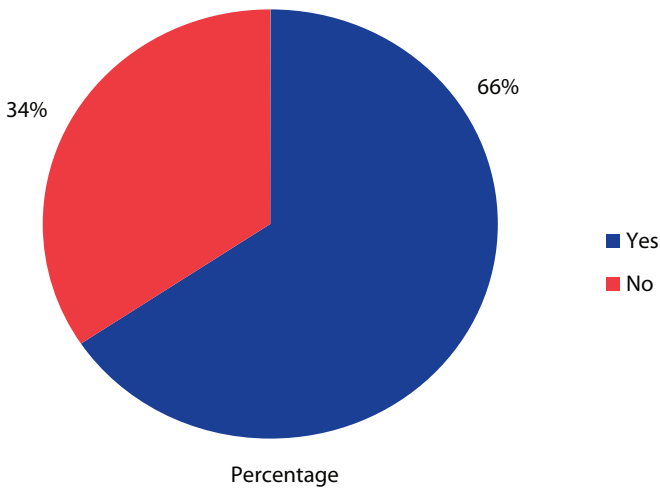
(Percentage)

Time	Position in the company				Total
	Manager	Owner	Accountant	Employee	
Less than half an hour	42	46	47	39	44
Between half an hour and 1 hour	3	7	18	3	6
1 hour	34	25	22	30	27
Between 1 and 2 hours	12	16	7	21	15
Between 2 and 3 hours	5	2	2	3	3
More than 3 hours	4	3	4	5	4
Total	100	100	100	100	100

When asked about the average time per month spent on learning, there were no significant differences by age, sex or province. Nonetheless, 65 per cent of those in accounting positions affirmed using less than an hour, whereas in other positions only 50 per cent claimed to be in that range.

Some 66 per cent of taxpayers used the Internet to meet their tax obligations. Of these, about two-thirds did this from the company's office, and the rest did from home. It is common to find home use of the Internet among MSMEs given the level of commitment that companies have to their own development and growth.

Figure 7:
Using the Internet to comply with tax obligations



The data on occupational position in the business reveals that accountants understand online platforms better than other workers: some 96 per cent of the former use the Internet to meet tax obligations. Owners and workers are less likely to use the Internet for that purpose.

As to the means of updating registration, taxpayers use online channels. Some 53.7 per cent of taxpayers use Tribunet to process paperwork, while 43.3 per cent still go to the TA for that purpose. Five per cent use tax kiosks. The responses of the other 2.5 per cent varied, such as through accountants or banks.

Again, analysis by occupational position in a company shows that accountants have a greater tendency to use online tools than other workers. Some 85 per cent of accountants update information online, while only about half of individuals in other positions do so.

Figure 8:
Using the Internet to comply with tax obligations by position

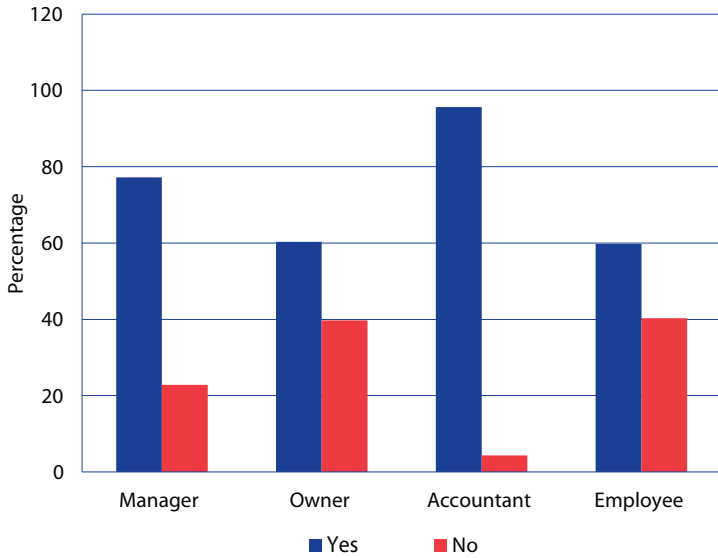


Figure 9:
Channel used by respondents to register or update information

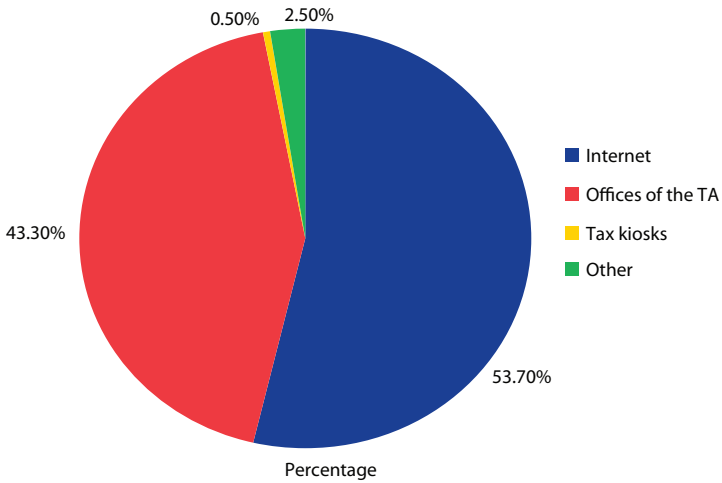
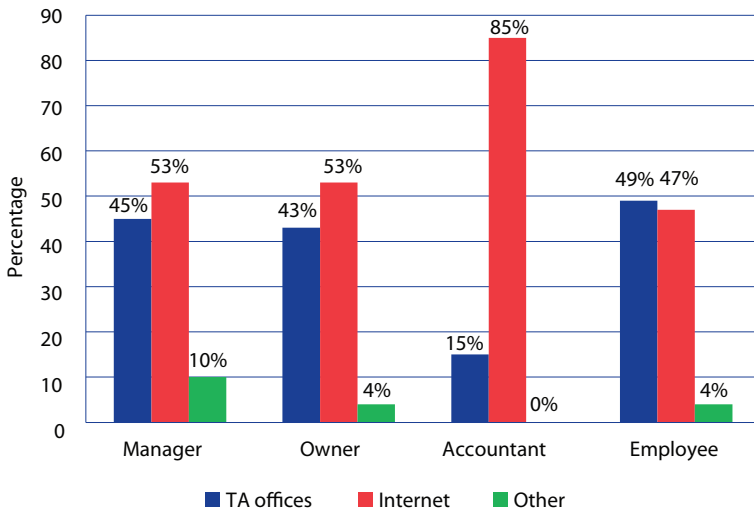


Figure 10:
Channel used to register or update by position



2.2.7 Tax returns and payment

The returns and payment process includes filling out forms, submissions (in person, online, and so on) and finally payment (at a cashier’s window, online, and so forth). On average, a business under the general regime spends 83 hours a year on activities related to returns and payment; this is 62 per cent of the total hours (134) that on average are spent on complying with tax obligations.

Table 30:
Tax compliance costs: General regime — return and payment, 2012
Annual average cost

(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Annual hours	79	109	60	83
Completing	27	40	19	29
Return	27	38	12	29
Payment	24	30	30	25
Annual cost	380	524	289	401

It should be noted from the above that there is a clear difference in hours spent on completing forms among medium enterprises, which devote significantly less time to this than small and microenterprises. This could be because these companies have a higher level of automation, as well as staff who are better trained to complete tax forms.

A company in the simplified regime spends an average of 17 hours on this activity. It should be recalled that returns must be filed quarterly under this system, and according to the profile only one annual summary statement of customers, suppliers and specific expenses was submitted. The return was a physical document, not an online submission.

Table 31:
Tax compliance costs: Simplified regime — return and payment, 2012
Annual average cost

(United States dollars)

	Business size			Total
	Micro	Small	Medium	
Annual hours	17	11	0	17
Completing	6	4	0	6
Return	7	3	0	7
Payment	3	4	0	3
Annual cost	83	55	0	82

Some 70.3 per cent of companies took an hour or less to fill out forms. This is statistically significant for the three types of business.

Table 32:
Time to complete sworn return

(Percentage)

	Business size			Total
	Micro	Small	Medium	
Less than half an hour	31	20	33	30
Between half an hour and 1 hour	15	8	0	14
1 hour	26	30	44	26
Between 1 and 2 hours	0	1	0	0
Between 2 and 3 hours	16	22	11	17
More than 3 hours	11	19	11	12
Total	100	100	100	100

An analysis by occupational position in a company indicates that accountants differ from respondents in other positions as most of them took less than an hour. The common denominator among accountants is that they are more effective in using the tools and therefore add value to the process.

Table 33:
Hours per month to submit the forms to the tax administration

(Percentage)

	Position in the company				Total
	Manager	Owner	Accountant	Employee	
Less than half an hour	35	41	63	35	40
Half an hour to 1 hour	15	20	15	17	18
1 hour	26	25	9	29	25
1 to 2 hours	15	10	7	13	11
Two to 3 hours	4	1	4	2	2
Over 3 hours	5	3	2	4	4
Total	100	100	100	100	100

About 70 per cent of taxpayers use the EDDI7 programme to submit returns. Of these, about 34 per cent do so in banks and some 36 per cent through the Internet. Forty-seven per cent make the submission of returns via the Internet. Some 24 per cent submit them using physical forms. This group consists of businesses in the simplified regime that at the time of the survey did not have an online means of filing returns.

As regards means of paying tax obligations, the large share of cash (75 per cent) is striking. This could explain the 25 hours a year that companies spend on this activity and may be why medium-sized enterprises that have greater access to payment instruments spend fewer hours (19) in this area. The payment process is the TA's responsibility, but it should be matched by efforts on the part of the financial system to provide taxpayers with tools and instruments to effect payment.

Of those (24 per cent) that used the financial system to pay taxes, 59 per cent used the company's account, 38 per cent used their personal accounts, and 3 per cent used a third-party account. It is important to note that TTCs include additional costs such as banking charges, which are not included in this study. In that regard, the fact that companies use personal bank accounts to pay taxes is a way of lowering financial costs but it does not foster wider banking usage.

Figure 11:
Means used to complete the sworn tax return

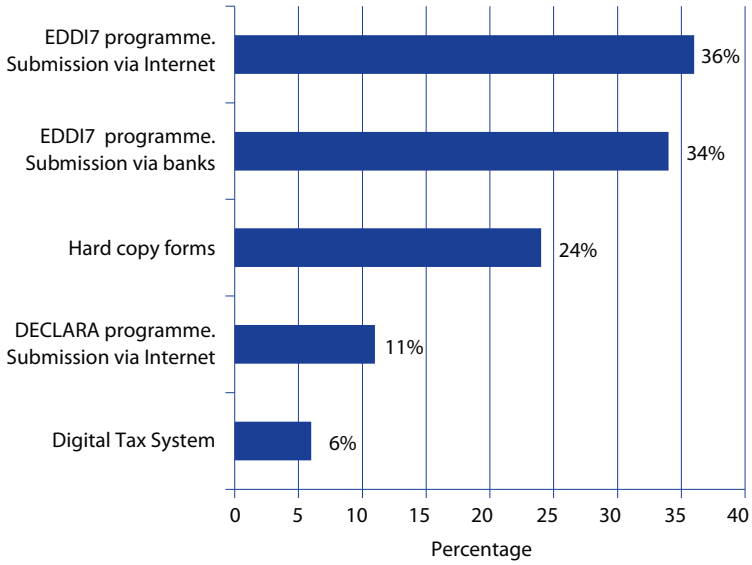


Figure 12:
Means used to effect payment

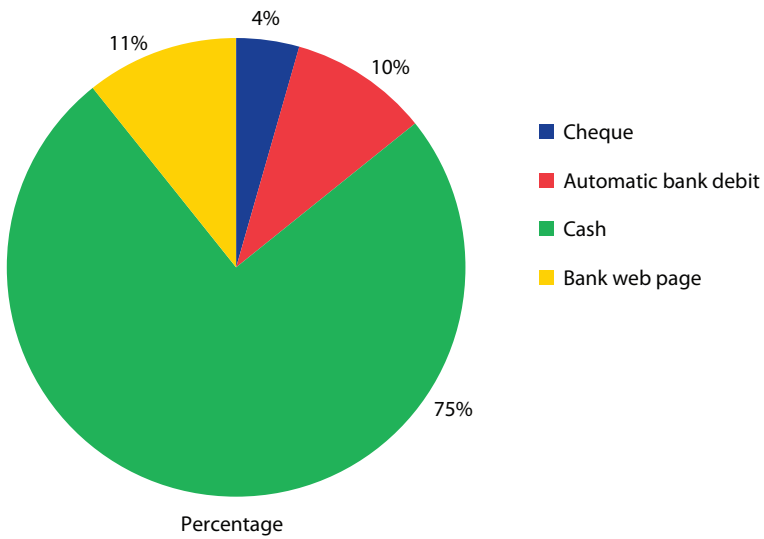
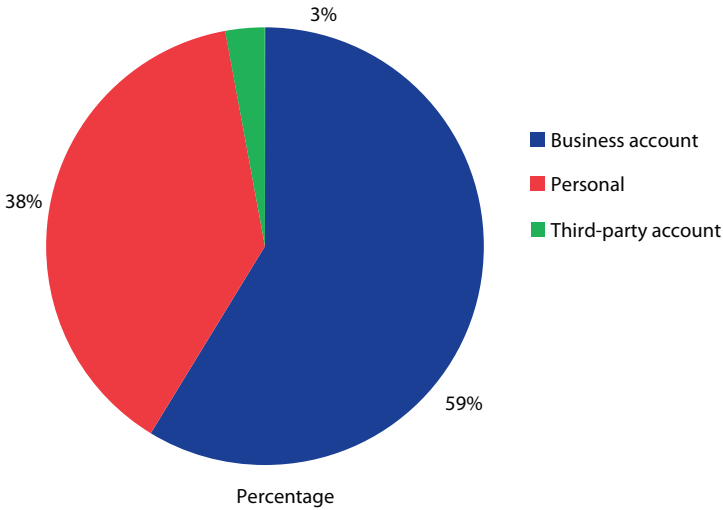


Figure 13:
Account used to pay taxes



2.2.8 Tax control

Tax control is related to the need for information about a business, verification of discrepancies, auditing of accounting records, and other factors. Some 9 per cent of respondents said that they had been subject to some action or requirement by the TA in the previous 12 months. These findings illustrate the presence and coverage of the TA in the period of analysis.

Some 43 per cent of taxpayers said that they had been asked for information on the business (documentary verification), and 20 per cent had been asked to verify discrepancies in the sworn statements (the tax returns). The average time needed to address these matters was three hours. Less than 10 per cent of taxpayers said they had incurred any extra cost.

Some 69 per cent of taxpayers who had to deal with some action on the part of the TA resolved the matter in an hour or less, 12 per cent in one to two hours, and 19 per cent in more than two hours.

Figure 14:
Taxpayers subject to TA actions in the previous twelve months

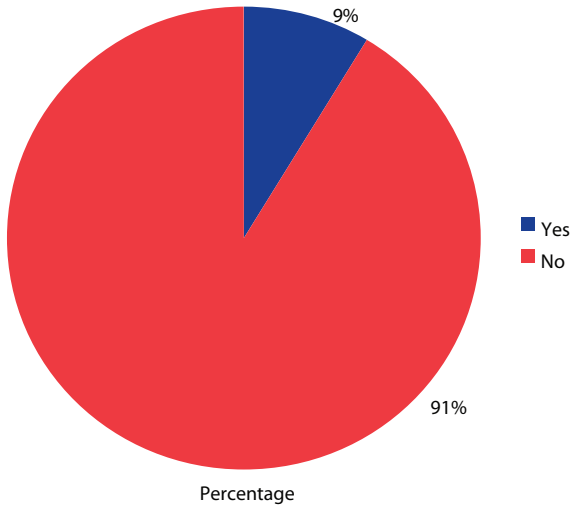


Figure 15:
Time in hours needed to comply with the TA's requirement

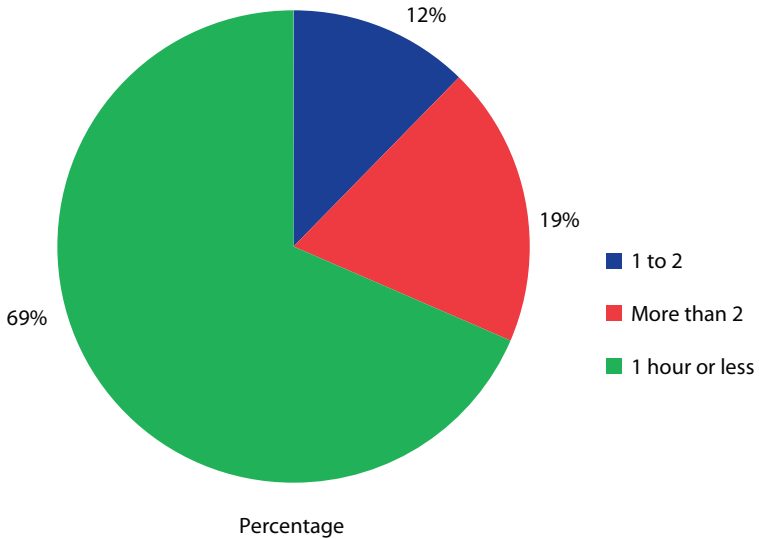
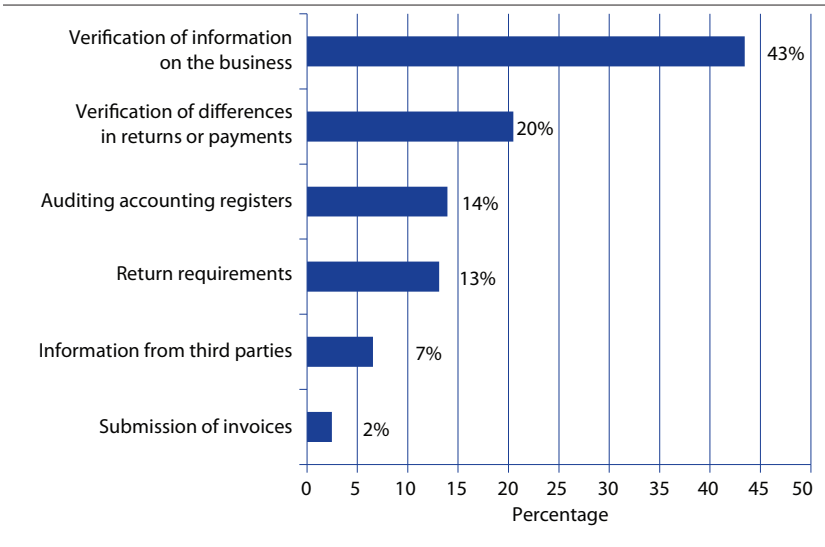


Figure 16:
Type of tax control action or requirement



2.2.9 Refunds and claims

Only 1 per cent of respondents said that they had requested a refund in the period of study. Some 33 per cent indicated that they had used an external adviser and that on average they spent approximately US \$200 on processing the request. The refund process, because of its very function of returning cash to the taxpayer, is very attractive to external agents. Because of that circumstance, and the complexities of the refund system itself, the transaction cost for this process is high.

Although a significant percentage use external advisers for the refund process, 67 per cent of businesses prepare the request themselves. The average time to complete the application was one hour. This suggests that the aim of hiring an external adviser is not only to make the request but also to do the follow-up on the bureaucratic processing (telephone calls, e-mails and so on). The average cost of an external adviser is US \$200.

As regards claims, 2 per cent of respondents said that they had made a claim in the period of study. Some 73.3 per cent of respondents said that they carried out this task personally or by using an employee,

while 26.7 per cent used an external adviser. The average time taken to address a claim was between one and six months. Finally, 46 per cent of respondents said it took more than two hours to present the claim.

Figure 17:
Person who normally prepares the tax refund request

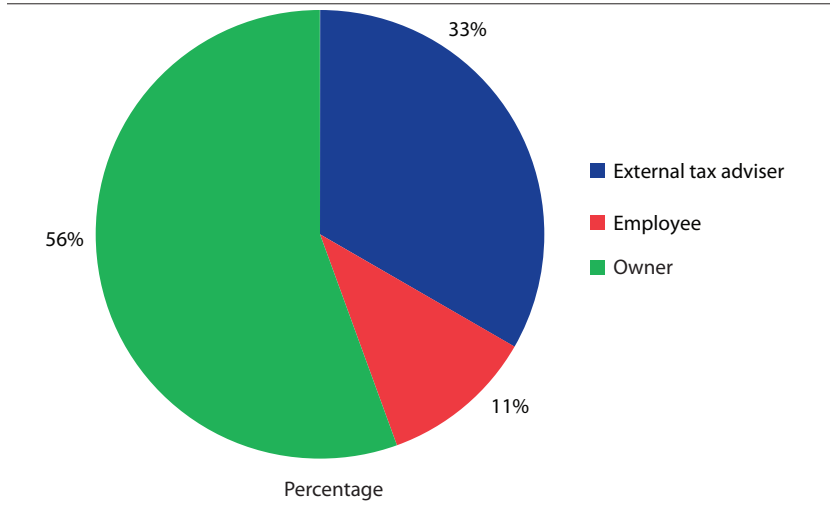
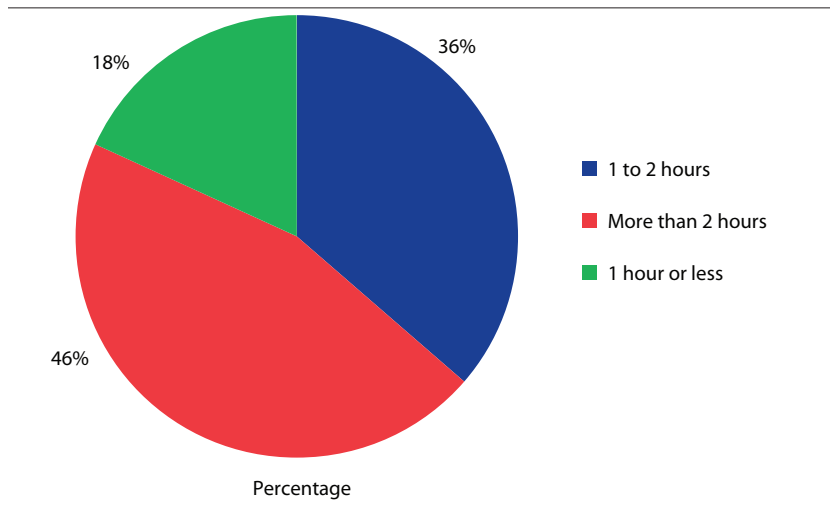


Figure 18:
Time it takes for a tax claim



2.2.10 External costs and spending

External costs and spending are a significant element of tax compliance costs in Costa Rican businesses, accounting for nearly 76 per cent of such costs. Companies devote US \$1,654 a year to external costs and spending, out of the total compliance cost of US \$2,156.

Table 34:
Tax compliance costs: External costs and spending, 2012
Average cost per business

(United States dollars)

Regime	Business size			Total
	Micro	Small	Medium	
General regime	1 760	1 514	2 732	1 738
Simplified regime	848	941	0	849
Total	1 664	1 511	2 732	1 654

A central issue of compliance costs, one that supports the hypotheses of the study of TTCs, is that 47 per cent of respondents said that they used an external tax adviser to comply with their tax obligations. Companies spent on average US \$717 a year to pay external advisers.

Figure 19:
Businesses that hired external advisers in previous twelve months

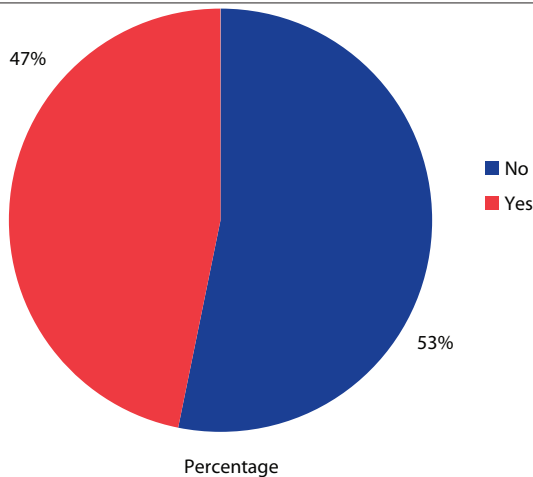


Table 35:
Tax compliance costs: Spending on external advisers, 2012
Average cost per business

(United States dollars)

Regime	Business size			Average
	Micro	Small	Medium	
General regime	787	550	1 417	764
Simplified regime	262	315	0	262
Total	732	549	1 417	717

The activities for which taxpayers most commonly required an external adviser were: completing and registering accounting ledgers (20 per cent); standard bureaucratic formalities in the TA (19 per cent); updating and registering information (19 per cent); and submitting returns (18 per cent). These findings indicate that it is quite common for MSMEs to use the help of external advisers in filling out accounting records. Even though this is relatively easy, companies prefer to assign it to a third party.

It can be inferred that the taxpayer pays a high opportunity cost for this activity and thus it is assigned to a third party, who surely understands the procedures and has the necessary software, and can undertake this task for a reasonable amount. According to the survey findings, the average external cost of these activities is US \$120 a month. It should be noted that advice is not dedicated exclusively to one task but could cover several, though this might raise its cost.

Some 67 per cent of those who used an external adviser said that the service costs less than US \$100 a month. Thirty-two per cent said that the cost is between US \$100 and US \$1,000 a month. Only 1 per cent said it exceeds US \$1,000 a month.

Asked if they have any other costs not covered by the survey, 3 per cent of respondents mentioned administrative penalties and 4 per cent mentioned interest payments.

Figure 20:
Procedures that require a tax adviser

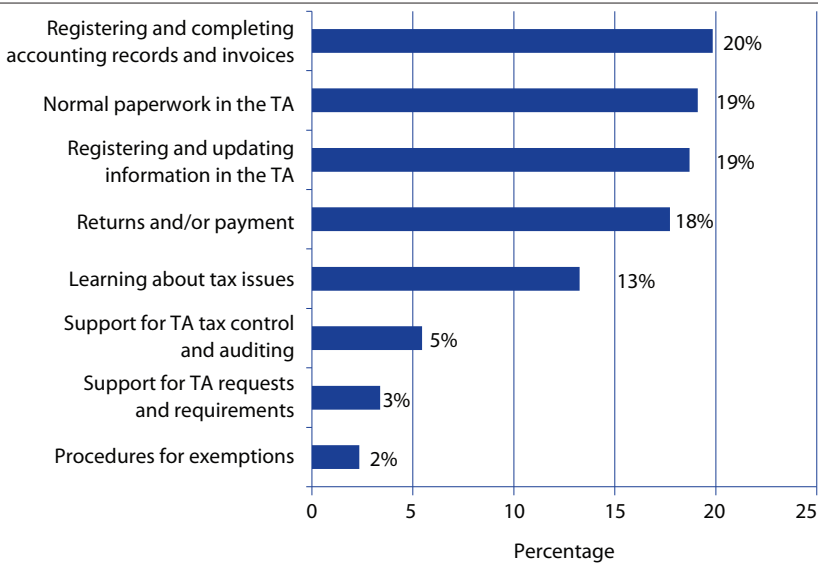
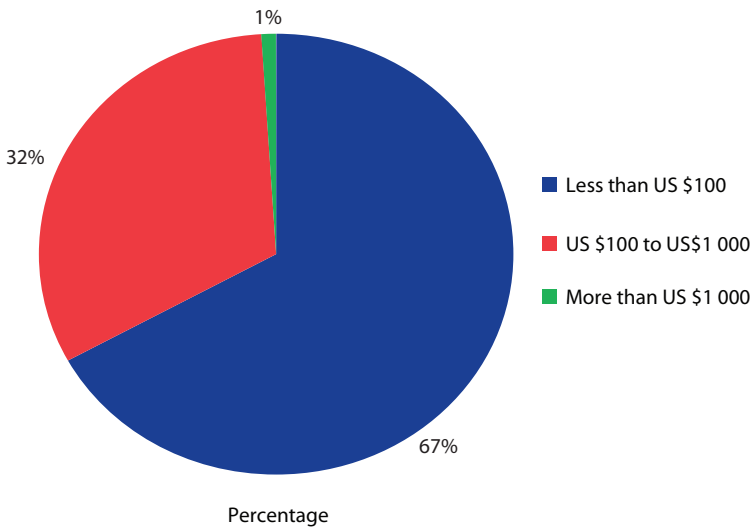


Figure 21:
Monthly cost of external advisers



2.3 Administrative costs

Administrative costs comprise State spending to administer the tax system. According to information on the executed budget, this was equivalent to 0.11 per cent of GDP in 2012.

The purpose of this section is to show how this expenditure is distributed among the tax sub-processes/cost centres. To calculate these costs, the Directorate for Integrated Tax Management was asked for information on the budget and human resources, so the methodology for measuring tax transaction costs could be applied.

The DGT operates with a “functional structure” based essentially on a group of directorates at the core level with national operational authority, and decentralized operations assigned to territorial tax administrations under regional directorates, as well as what is called the Large Taxpayer Directorate at the national level. The central areas cover regulatory activities that, for present purposes, have been assigned to their sub-processes. Thus, activities of the sections responsible for control, collection and taxpayer services were distributed among their respective sub-processes.

Table 36:
Directorate General of Taxation

Areas
Central and Regulatory Directorates
Directorate and Subdirectorate General
Integrated Tax Management Directorate
Directorate for Inter-Institutional Tax Affairs
Tax Information Technology Directorate
Regulations Directorate
Directorate of International Taxation and Technical Taxation
Taxpayer Service Directorate
Directorate of Collection
Directorate of Collection, Documents and Archives
Extensive Tax Control Directorate
Directorate of Oversight
Directorate of Tax Intelligence
Directorate of Administrative and Tax Appraisals
Directorate of the Technical Standardization Body

Table 36: (cont'd)

Areas
Operational Directorates
National Large Taxpayers Directorate
Central Regional Directorate
San José West Administration
San José East Administration
Limón Administration
Northern Regional Directorate
Alajuela Administration
Heredia Administration
North Zone Administration
Pacific Regional Directorate
Guanacaste Administration
Puntarenas Administration
South Regional Directorate
Cartago Administration
South Zone Administration

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

The operational units have a departmental structure with profiles assigned to each of the areas, allowing each of them to be assigned to the respective sub-processes.

Table 37:
Areas and profiles

Area	Profile
Extensive tax control	Managers
	Resolvers
	Chiefs
	RUT manager
	Other
	Deputy manager
	Support staff
Intensive tax control	Auditors
	Resolvers
	Chiefs

Table 37: (cont'd)

Area	Profile	
	Deputy Director	
	Support staff	
Sub-Bureau of Collection, Control and Tax Services	Managers	
	Resolvers	
	Others	
	Tax analysts	
	Support staff	
Collection	Managers	
	Resolvers	
	Chiefs	
	Deputy Manager	
	Returns	Manager
		Chief reviser
		Support staff
	Others	
Support staff		
Enforcement	Manager	
	Chief Reviser	
	Chiefs	
	Deputy Manager	
	Support staff	
Current account	Manager	
	Chief reviser	
	Chiefs	
	Support staff	
RUT	Managers	
	Chiefs	
	Support staff	
Taxpayers services	Managers	
	Deputy Manager	
	Chiefs	
	Resolvers	
	Others	
	Support staff	

Table 37: (cont'd)

Area	Profile
Assessment	Expert
	Support staff
	Deputy Manager
Economic and Tax Research Studies Sub-Directorate	Tax Analysts
	Deputy Manager
Management level/administrative staff	Manager
	Chiefs
	Resolvers
	Overseer
	Support staff

Each step proposed in the methodology was followed, as described below.

Step 1: Executed budget

The executed budget for 2012 was US \$51 million, 10 per cent less than in 2011. Almost 70 per cent of the budget was devoted to salaries, followed by services at 25 per cent. The budget was equivalent to 0.11 per cent of GDP. The fall in the budget is explained by the “current transfers” budget category. In 2010 and 2011, this included pending refunds from previous years that were effected during these years.

Table 38:
Step 1: Executed budget

(United States dollars)

Items	2010	2011	2012
Salaries	26 254 378	32 370 536	35 095 249
Services	9 543 383	12 647 879	12 831 708
Materials and supplies	341 916	366 356	334 930
Durable goods	594 275	685 319	1 466 150
Current transfers	10 768 219	9 742 951	1 302 099
Special account	11 150	551	1 456
Total	47 513 320	55 813 591	51 031 592
Percentage collection	1.63	1.65	1.35
Percentage of GDP	0.14	0.14	0.11

Step 2: Spending by function

For the purposes of the present study, the budget for salaries was allocated in line with the share of the remuneration paid to officials in each area in 2012. Thus, the allocation was effected on the basis of the officials' functions in each area, and which the human resources section had disaggregated by profiles for each of the tax sub-processes. Some tax processes cut across the areas of DGT activity, such as registration — which belongs not only to the collection area but also has profiles within other areas of the organization, such as taxpayer services. For methodological purposes the heads of operational units¹⁴ were assigned to taxpayer services so that their input could be located in one of the processes.

The following Directorates were included in General Administration: Directorate and Sub-Directorate General; Integrated Tax Management; Inter-Institutional Tax Affairs; Tax Information Technology; Tax Regulations; International Taxation and Tax Procedures; Technical Standardization; and Regional Offices. The technical standardization section is a municipal advisory and support agency that plays only a modest role in the tax field.

Auditing is the area that received the largest budgetary allocation (34 per cent), given its large number of staff.

Table 39:
Step 2: Expenditure budget, 2012

(United States dollars)

Expenditures by major functions	Expenses on salaries	Number of staff	Percentage of total employees	Average monthly salary
Support and services	6 359 892	184	19	2 880
Return and payment	5 429 045	151	16	2 996
Collection	2 367 649	69	7	2 859
Claims	1 989 308	58	6	2 858
Refunds	302 441	9	1	2 800
Auditing	12 092 928	364	37	2 769
General administration	6 553 986	138	14	3 958
Total	35 095 249	973	100	3 006

¹⁴Understood as the managers and support staff of tax administrations.

Step 3: Installed capacity by key processes

In this phase, the installed capacity was calculated for each sub-process or cost centre. For that purpose, there were considered to be 240 working days in a year, which serves as a reference in later sections of the methodology. General administrative costs are not taken into account at this juncture as they must be distributed with each of the tax sub-processes.

Table 40:
Step 3: Installed capacity by key processes

Costs centre	Employees	Annual working days	Percentage installed capacity
Support and services	184	44 160	22.0
Filing and payment	151	36 240	18.1
Collection	69	16 560	8.3
Claims	58	13 920	6.9
Refunds	9	2 160	1.1
Auditing	364	87 360	43.6
Total	835	200 400	100.0
Working days per year	240		

Step 4: Calculating administrative costs by key processes

In this step, all the administrative costs: general administration salaries, spending on goods, services and common materials, current transfers and special accounts, in addition to investment and infrastructure spending, were distributed within the tax sub-processes. For this, the distribution ratio of installed capacity which distributes the total expenditure on each of the sub-processes was used.

Step 5: Calculating administrative costs by tax

Finally, based on the collected amounts, the costs for each of the more important taxes were distributed to each of the central sub-processes of defined costs. The importance of sales tax and income tax in total spending should be noted.

Table 41:
Step 4: Estimated administrative costs by key processes

(United States dollars)

Cost centre	Percentage installed capacity	Total administrative expenses (AC = b +c)	Total current direct costs (b)	Total indirect costs (c)	Indirect spending	
					Current expenditure on remuneration and general administration	Infrastructure investment
Support and services	22	11 315 845	6 359 892	4 955 953	4 632 873	323 080
Filing and payment	18	9 496 158	5 429 045	4 067 113	3 801 977	265 136
Collection	8	4 226 131	2 367 649	1 858 482	1 737 327	121 155
Claims	7	3 551 511	1 989 308	1 562 203	1 460 362	101 840
Refunds	1	544 851	302 441	242 411	226 608	15 803
Auditing	44	21 897 095	12 092 928	9 804 168	9 165 032	639 136
Total	100	51 031 592	28 541 263	22 490 330	21 024 180	1 466 150

Table 42:
Step 5: Calculation of administrative costs by tax, 2012

(United States dollars)

Taxes	Total administrative costs by process								
	Total collection	Percentage collection	Total administrative expenses	Support and services	Return and payment	Collection	Claims	Refunds	Audit
Income tax	1 754 579 207	46	23 607 676	5 234 812	4 393 009	1 955 047	1 642 961	252 053	10 129 794
General sales tax	1 150 420 429	30	15 478 784	3 432 296	2 880 353	1 281 860	1 077 236	165 263	6 641 776
Fuels tax	382 833 617	10	5 150 986	1 142 190	958 516	426 574	358 480	54 996	2 210 231
Tax on vehicles boats and aircraft	200 519 545	5	2 697 969	598 253	502 049	223 430	187 763	28 806	1 157 669
Other	304 437 726	8	4 096 177	908 294	762 233	339 221	285 071	43 734	1 757 625
Total	3 792 790 523	100	51 031 592	11 315 845	9 496 158	4 226 131	3 551 511	544 851	21 897 095
Percentage of GDP	8.5		0.11	0.03	0.02	0.01	0.01	0.00	0.05
Percentage of collection			1.35	0.30	0.25	0.11	0.09	0.01	0.58

Source: Based on data from the Directorate General of Taxation, Ministry of Finance, Costa Rica.

2.4 Final considerations

- Application of the methodology for measuring compliance costs is the starting point for raising awareness of costs incurred by a taxpayer.
- It is common for businesses to use external tax advisers. Thus, the tax administration should consider instituting some kind of linkage to this practice — not with the intention of limiting it but in an effort to ensure that the taxpayer makes efficient use of resources and uses effective intermediaries to tax advisers, so as to improve tax compliance. If taxpayers outsource activities that generate more value, this improves the system's efficiency. If outsourcing causes an additional cost, however, there is a need to address the processes and simplify procedures.
- The simplified regime should have online tools for quarterly returns. This would help to reduce tax compliance costs for this segment of taxpayers.
- The role of accountants in businesses should be reviewed, as should their relationship with the TA. Those surveys answered by in-house accountants yielded better quantitative findings and compliance cost-effectiveness.
- The simplified regime is important in reducing companies' compliance costs, but the small number of firms that are subject to the regime is striking. It is important to coordinate efforts with the Law on Strengthening SMEs so as to help lower the compliance costs of MSMEs.
- The use of cash is a time-consuming means of paying taxes each month. A joint programme with institutions in the banking system could help cut the number of hours spent on paying taxes.
- The DGT's budget was equivalent to 0.11 per cent of GDP and 1.35 per cent of the year's tax revenue. These figures are related to the tax administration's implementation capacity in meeting institutional objectives.
- Salaries are the leading budget item. While this arises from standard cost analysis, it is important to distinguish current salaries from pension-related remuneration.

- There is a consequential relationship between spending on control actions and compliance costs. Some 9 per cent of respondents said that they were subject to an action by the tax administration.

Annexes

Annex I. Technical data

<p>TECHNICAL SPECIFICATIONS OF SAMPLE DESIGN COMPLIANCE COSTS SURVEY COSTA RICA</p>

SAMPLE DESIGN

1. Population and coverage:

The group under study comprised active taxpayers (non-delinquent in the 2012 fiscal period) on 28 February 2013 in the general and simplified tax regimes. It included all taxpayers defined as MSMEs, excluding those termed “large taxpayers” and “large territorial enterprises”.

2. Sampling framework:

The sampling framework that determined the size of the sample consisted of active taxpayers (those who filed their tax returns for fiscal year 2012) in the Single Tax Register provided by the DGT.

3. Coverage:

The survey covered the greater metropolitan area from the counties of Atenas to Paraíso and from Alajuelita to Santa Bárbara: a total of 31 counties and 163 districts.

4. Unit of analysis:

This is the productive unit that is registered as a taxpayer. Within the unit, the respondent may be the manager, accountant or owner.

An MSME can be defined as such according to its volume of sales or number of employees. The informal sector (unregistered) is not included.

5. Sample size:

A stratified sampling mechanism was used to choose the size of the sample in two stages, by province and by economic sector for each type of regime.

Prior analysis indicated that in 2012 about 346,000 taxpayers across the metropolitan area filed returns in all tax regimes, excluding sectors such as education, public administration and agriculture.

The chosen sample size was 800 surveys, a value proportional to taxpayers under both the general regime (600 surveys) and the simplified regime.

6. Expansion factor:

The inverse probability of inclusion in the sample.



7. Standard sampling error:

A sampling error of 3.5 per cent at 95 per cent reliability was suggested.

8. Data collection strategy:

Collection, inputting and analysis of data was entrusted to a consultant with expertise on market research and surveys, who provided a report as well as data sources.

Annex II. Compliance costs survey

 UN-DESA	 ESTUDIO DE OPINIÓN SOBRE COSTOS DE CUMPLIMIENTO TRIBUTARIO EN COSTA RICA	Cuestionario No.	
		Fecha:	Hora inicio:
		Encuestador:	Hora fin:
Buenos días / tardes. Mi nombre es _____ y represento a _____ Estamos realizando un estudio de los costos que generan el pagar impuestos. Le solicito me conceda unos minutos para hacerle unas pocas preguntas. Sus respuestas serán manejadas con total reserva y sólo servirán para fines estadísticos.			
DATOS DE LOCALIZACIÓN DEL NEGOCIO			
A1. ¿Su negocio esta inscrito como? (Marcar sólo 1 opción)			
[1] Persona Jurídica		[2] Persona Física	
A2. Provincia/ Cantón / Distrito			
NÚMERO CONTACTOS PARA ENTREVISTA EFECTIVA			
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30			
DATOS GENERALES			
A3. Género: [1] Hombre [2] Mujer			
A4. Edad: ____ [1] 18 a 25 años [2] 26 a 39 años [3] 40 a 54 años [4] Más de 55 años			
A5. ¿Qué puesto desempeña Ud? [1] Gerente [2] Dueño [3] Contador del negocio [5] Empleado [6] Asesor Tributario Externo (Agradezca y Cierre encuesta)			
A6. Lugar de nacimiento:(ciudad/país) _____			
A7. Nacionalidad: Costarricense (1) Otra: (2) _____			
A8. ¿Esta inscrito ante la Dirección General de Tributación? (Marcar sólo 1 opción)			
[1] SI		[2] NO (Agradezca y Cierre encuesta)	
A9. ¿Esta inscrito en el Régimen de Tributación Simplificado? (Marcar sólo 1 opción)			
[1] SI		[2] NO	
A10. ¿Cuánto tiempo en operación su negocio? (Marcar sólo 1 opción)			
Menos de 6 meses		1	
De 6 meses a 1 año		2	
De 1 año a 2 años		3	
De 2 años a 5 años		4	
De 5 a 10 años		5	
Más de 10 años		6	
A11. ¿Cuántos LOCALES tiene su Negocio? (Marcar sólo 1 opción)			
Solo Uno		1	
2 o mas Sucursales		2	

A12. ¿Qué COBERTURA tiene su Negocio?						
	1 Provincia	1	2 o mas Provincias	2	Internacional (Comercio Exterior)	3
A13. ¿Cuál es el SECTOR ECONÓMICO de su empresa? LEA EN ORDEN Y MARQUE UNA OPCIÓN						
[1] Agropecuario [3] Industria [5] Artesanos [2] Comercio [4] Servicios [6] Profesionales [7] Inmobiliario [8] Otro (especifique):_____						
A14 ¿Cuál fue el nivel de ingresos anuales (Ventas en Colones obtenido por su negocio en el último ejercicio fiscal? (Marcar sólo 1 opción)						
[1] Menos de ₡50 millones [4] De ₡500 millones a ₡1000 millones [2] De ₡50 millones a ₡250 millones [5] De ₡1000 millones a ₡2500 millones [3] De ₡250 millones a ₡500 millones [6] Más de ₡2500 Millones						
A15 ¿Cuántos trabajadores laboraron en su negocio durante el año pasado? (marque solo una opción) Cantidad de empleados: _____						
[1] Menos de 10 [4] De 50 a 100 trabajadores [2] De 10 a 30 trabajadores [5] De 100 a 200 trabajadores [3] De 30 a 50 trabajadores [6] Más de 200 trabajadores						
INFORMACIÓN Y REGISTRO TRIBUTARIO						
B1. ¿A qué impuestos estuvo afecto su negocio durante al año anterior? (Marque los que apliquen)						
	Impuesto General sobre las Ventas	1				
	Impuesto sobre la Renta	2				
	Régimen de Tributación Simplificada	3				
	Otro Especifique:	4				
B2. ¿Qué medio(s) emplea habitualmente para obtener información sobre sus obligaciones tributarias? (Marque las que correspondan)						
[1] Ventanillas de la AT [2] Folletos impresos [3] Página Web de la DGT [4] Vía Telefónica [5] Prensa [6] Radio/televisión [7] Correo electrónico [8] Especialista Tributario (Pase a B3) [9] Redes Sociales [10] Otros especifique: _____ [11] Ninguno (*) AT = Administraciones Tributarias DGT = Dirección General Tributaria						
B3. Indique ¿Cuál fue la razón principal para contratar sus servicios? (Marque las que correspondan únicamente 3 opciones)						
		Primera razón	Segunda razón	Tercera razón		
Exista poca información en las ventanillas o Pagina web de la DGT		1	1	1		
Los funcionarios de la DGT no explican debidamente las consultas		2	2	2		
El asesor tributario brinda información con mayor detalle que la DGT		3	3	3		

TAX TRANSACTION COSTS IN COST RICA

	Primera razón	Segunda razón	Tercera razón
Por falta de tiempo para ir a la DGT a solicitar información	4	4	4
Es más barato contratar un asesor tributario	5	5	5
Otro especifique:	6	6	6
NS / NR	7	7	7
B4. ¿Cuánto tiempo le toma cada MES para informarse y/o capacitarse sobre las obligaciones tributarias de su negocio ?			
	Horas al Mes		
B5. ¿Utiliza el internet para cumplir con sus obligaciones tributarias de su negocio?			
	[1] SI	[2] NO	
B6. ¿Dónde se conecta a internet para cumplir sus obligaciones tributarias?			
	[1] Negocio [2] Café Internet [3] Quioscos Tributarios [4] Casa [5] Otros especifique _____		
B7. ¿Cuánto tiempo le tomó inscribirse en el Registro Tributario o actualizar su información tributaria?			
	Horas		
B8. Que canal utiliza habitualmente para realizar su registro tributario o actualización de datos?			
	[1] Oficinas de la DGT [2] Internet [3] Quioscos Tributarios [4] Otro especifique _____		
B9. ¿Qué medio utiliza para el registro contable de las operaciones de su negocio? (Marcar sólo 1 opción)			
	[1] Registros o Libros físicos (Papel) [2] Registros en Programas computarizados Propios [3] Otros especifique _____		
B10. ¿Cuánto tiempo le toma al MES únicamente el registro contable de las transacciones comerciales y financieras de su negocio ?			
	Horas al Mes		
B11. ¿Cuánto es el valor estimado que gasta habitualmente al MES en Facturas, Formularios, libros contables, Programas Informáticos , legalizaciones, u otros gastos relacionados al Registro Contable — Tributario de su negocio ?			
	Monto total al mes en colones _____		
DECLARACIÓN Y PAGO DE IMPUESTOS			
C1. ¿Qué medios utiliza para el llenado de la Declaración Jurada de Impuestos?			
	[1] Formularios Físicos (Papel)	[4] Tributación Digital	
	[2] Programa de ayuda EDDI7	[5] Tributación Directa	
	[3] Programa DECLARA		

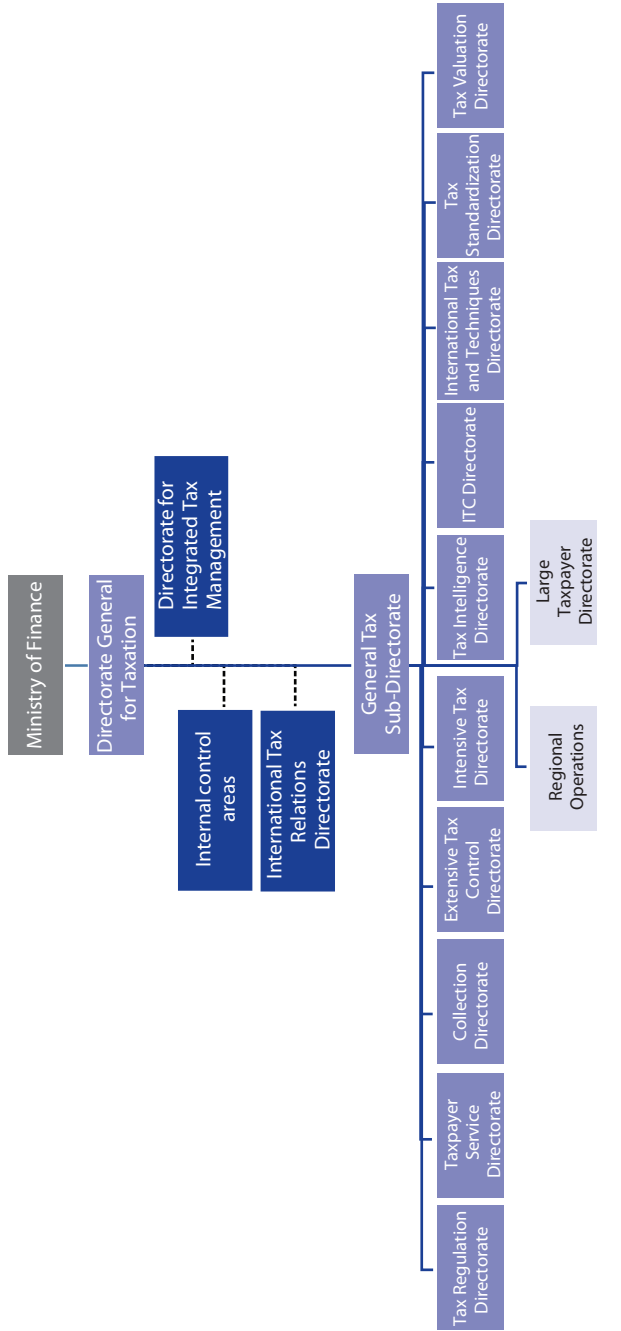
D3. ¿Cuánto tiempo en horas le requirió a Ud. o un empleado del negocio el cumplir con el requerimiento de la Administración Tributaria?		
Horas		
D4. Para este trámite tuvo que incurrir en algún costo externo adicional ¿Cuál fue el costo aproximado de esta asesoría externa?		
[1] SI	[2] NO	
Monto en Colones		
DEVOLUCIONES DE IMPUESTOS Y RECLAMACIONES		
E1. ¿Ha realizado solicitudes de devolución de impuestos durante los últimos 12 meses?		
[1] SI	[2] NO (Pase a E6)	
E2. ¿Quién en su negocio prepara y realiza habitualmente la solicitud de devolución de impuestos?		
[1] Ud. personalmente	[2] Empleado	
[3] Asesor Tributario Externo	(Pase a E4)	
E3. Si la solicitud la realizo Ud. o el empleado del negocio ¿Cuánto tiempo le tomó?		
Horas por solicitud		
E4. Si la solicitud la realizó el Asesor Tributario Externo, ¿Cuál fue el costo aproximado por el trámite?		
Monto en Colones		
E5. ¿Cuánto tiempo duro la Administración Tributaria para la devolución del dinero después de realizada la solicitud?		
[1] 1 mes	[2] 2 a 3 meses	[3] 3 a 6 meses
[4] 6 meses a 1 año	[5] Más de 1 año	
E6. ¿Ha presentado algún reclamo o petición ante la Administración Tributaria en los últimos 12 meses?		
[1] SI	[2] NO (Pase a F1)	
E7. ¿Quién en su negocio prepara y realiza habitualmente un reclamo a la Administración Tributaria?		
[1] Ud. personalmente	[2] Un Empleado	
[3] Asesor Tributario Externo	(Pase a E9)	
E8. Si el reclamo o petición lo realizó Ud. o un empleado del negocio ¿Cuánto tiempo le tomó?		
Horas		
E9. Si el reclamo o petición a la Administración Tributaria lo realizó Asesor Tributario Externo, ¿Cuál fue el costo aproximado por el trámite?		
Monto en Colones		
E10. ¿Cuánto tiempo duro la Administración Tributaria en dar respuesta a su reclamo o petición?		
[1] 1 mes	[2] 2 a 3 meses	[3] 3 a 6 meses
[4] 6 meses a 1 año	[5] Más de 1 año	

COUNTRY STUDY: COSTA RICA

COSTOS EXTERNOS		
F1. Durante los últimos 12 meses, ¿Tuvo que pagar por los servicios permanentes de algún asesor tributario externo (entiéndase a un experto que no labora en forma dependiente en el negocio)		
[1] SI	[2] NO (Pase a F4)	
F2. En que trámite o actividades requiere al asesor tributario externo (Marcar todos los que apliquen)		
Actualización y registro de información en la Administración Tributaria		1
Registro y llenado de libros contables y facturación		2
Trámites habituales en la Administración Tributaria		3
Declaración y/o Pago de Impuestos		4
Capacitación en temas tributarios		5
Apoyo en requerimientos de Control y Fiscalización de la Administración Tributaria		6
Apoyo en solicitudes y requerimientos a la Administración Tributaria		7
Tramites de exenciones		8
Otro especifique:		9
F3. ¿Cuál fue el costo aproximado MENSUAL que pagó a su asesor tributario externo por los servicios detallados en la pregunta anterior?		
Monto en Colones		
F4 Durante los últimos 12 meses, ¿Existieron otros costos de cumplimiento tributario que no hayan sido mencionados en la presente encuesta?		
[1] SI	[2] NO (Pase a G1)	
[3] Indique ¿Cuál?		
F5 ¿Cuál fue el costo aproximado de trámite mencionado anteriormente? Excluya el monto del Impuesto, especifique el valor aproximado		
Monto en Colones		
G1. Ya para terminar la encuesta. Tiene usted algún comentario o observación sobre algún tema no tratado en la encuesta que afecte el cumplimiento de sus obligaciones tributarias (Favor anotar)		

DATOS DEL ENTREVISTADOR		
NOMBRE DEL SUPERVISOR		NOMBRE DEL SUPERVISOR

Annex III. DGT organizational structure



Annex IV. Survey and interviewee profile

1. The DGT, through the Directorate for Integrated Tax Management, provided the United Nations Department of Economic and Social Affairs and the Inter-American Center of Tax Administrations with the sampling framework for the survey, from which the consultant selected the random sample, including the tax identification number, company name, address and telephone number.
2. The consultant chose the sample, bearing in mind the taxpayer's economic activities, tax regime and province.
3. The polling firm contacted companies by telephone to make an appointment with the owner, manager or employee in charge of accounting.
4. If the company could not be contacted by telephone, a visit was made to the address registered at the DGT.
5. The time for the survey was not to exceed 20 minutes.
6. Preferably, the survey was to be answered by the owner or manager, but it was acceptable if they delegated the task to an employee in charge of tax matters.
7. No survey was undertaken of external advisers hired by the company to handle tax procedures.

The team comprised 16 interviewers, a supervisor and a study coordinator. The work began on 8 May 2013 and the plan was to conduct 80 surveys a day so as to complete the data gathering exercise on 21 May. This plan was adhered to.

Table 43:
Results of field work, 8 May 2013

Results	Number	Percentage
No corresponding address	12	11.3
Business closed	9	8.5
Does not have business	5	4.7

Table 43: (cont'd)

Results	Number	Percentage
No corresponding telephone	22	20.8
Person in charge out of the country	3	2.8
Has an external accountant	6	5.7
Did not want to participate	21	19.8
Request an appointment	27	25.5
Carried out	1	0.9
Total	106	100

Survey results

At the end of the information-gathering period, 842 surveys had been carried out, exceeding the target of 800. Some 633 of the businesses were under the general regimen (75.2 per cent) and 209 were subject to the simplified system (24.8 per cent).

Table 44:
Survey results by type of business

Business size	Sample		
	General regime	Simplified regime	Total
Micro	531	203	734
Small	96	6	102
Medium	6	0	6
Total	633	209	842

Most of the companies surveyed (56.9 per cent) were in the province of San José. The rest were uniformly conducted in the provinces of Alajuela, Heredia and Cartago. It should be noted that the study was carried out in the greater metropolitan area.

Table 45:
Survey results by location of business

Province	Sample	Percentage
San José	479	56.9
Alajuela	133	15.8
Heredia	123	14.6
Cartago	107	12.7
Total	842	100.0

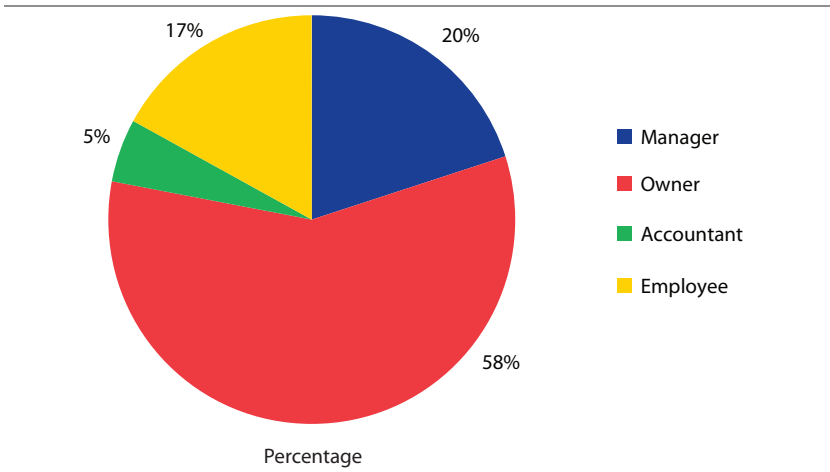
The findings revealed a high level of concentration in the commerce and services sectors among businesses in both the general and simplified regimes. These findings are consistent with the economic structure and concentration of Costa Rica, where the two sectors account for nearly 40 per cent of GDP.

Table 46:
Number of companies surveyed by sectors and regime

Economic sectors	Simplified regime	General regime	Total
Agriculture	2	4	6
Crafts	2	0	2
Commerce	121	121	242
Industry	19	35	54
Real estate	9	51	60
Professionals	0	7	7
Services	56	415	471
Total	209	633	842

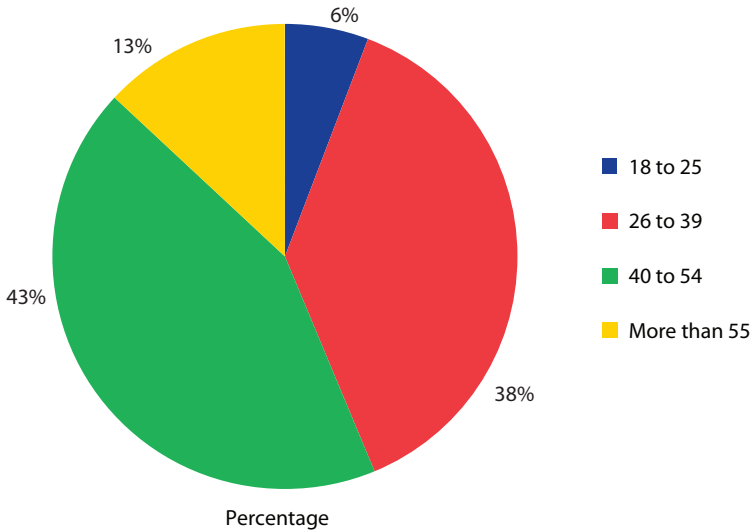
Respondents were mostly business owners (58 per cent), followed by managers (20 per cent), employees (17 per cent) and in-house accountants (5 per cent). As shown below, the accountants’ role was important in the assessed findings, as was their active participation in each of the tax processes.

Figure 22:
Occupational position of respondent



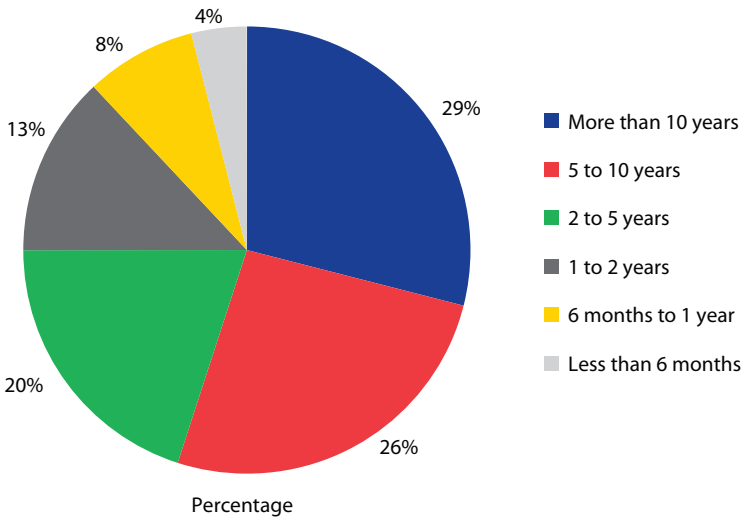
Some 43 per cent of respondents were between forty and fifty-four years of age; 38 per cent were between twenty-six and thirty-nine years; 13 per cent were older than fifty-five years; only 6 per cent (65 people) were between eighteen and twenty-five years. Moreover, 90 per cent of surveys were answered by Costa Ricans and 10 per cent by individuals of other nationalities.

Figure 23:
Ages of respondents



Only 4 per cent of companies in the survey had been in operation for less than six months, while a further 8 per cent had been active for less than a year. These figures were important when information on the time required to register with the tax administration was analysed. Given their recent registration, the results were not entirely comparable with those companies that have been in operation for more than five years (55 per cent), whose registration time might have been longer given the time passed and the different process of support during registration.

Figure 24:
Time in operation of the business



Tabulation of data

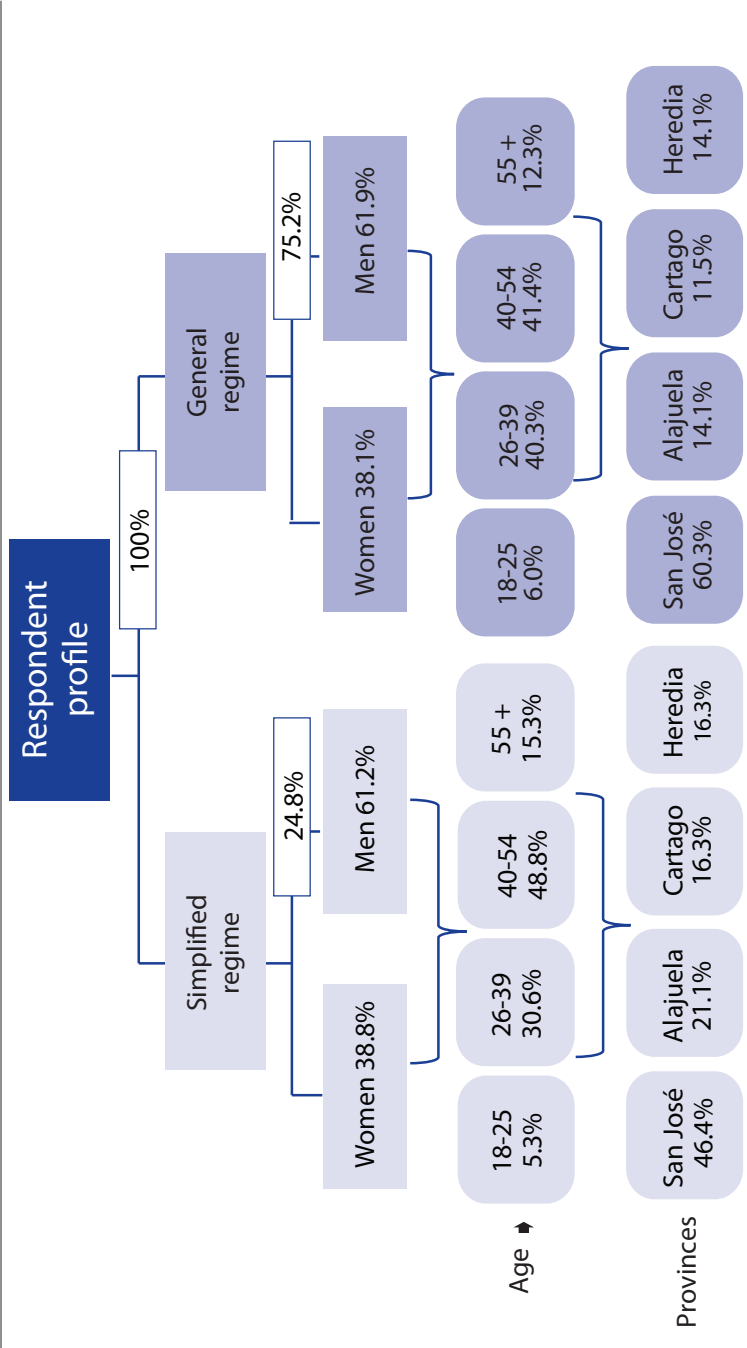
Each of the variables was analysed using SPSS software,¹⁵ revealing that the behaviour of the variables did not significantly affect the results of the whole sample. Thus, for most of the variables it was decided to leave aside the extreme values and respect the original values. A qualitative analysis of the variables indicated that they were in a reasonable range for the purposes of statistical evaluation.

To amend certain inconsistencies, the surveyed business was contacted in order to verify the information and make the necessary adjustments, given that the inconsistency might have arisen because the question had not been understood.

Companies that claimed to be within the general regime but had said that they had filed simplified returns were identified. In these cases, the information was adjusted, giving primacy to the information given in the survey on the return submission form.

¹⁵Statistical computer programme owned by IBM.

Figure 25:
Respondent profile



Annex V. Economic information used in the study

Information	Colones	Dollars
GDP (millions)	22 684 587	44 638
Collection (millions)	1 927 477	3 793
Average minimum wage for bachelor's degree	441 531	869
Average hourly wage ^a	2 453	4.8
Estimated total sales of microenterprises (millions)	7 862 742	15 471.9
Estimated total sales of medium enterprises (millions) ^b	8 034 487	15 809.9
Estimated total sales of small enterprises (millions)	1 827 469	3 596
Buy exchange rate, 31 December 2012	502 070	
Sell exchange rate, 31 December 2012	514 320	
Average exchange rate	508 195	

Source: Directorate General of Taxation, Ministry of Finance, Costa Rica.

^a20 working days and 9 hours a day.

^bCalculated on the basis of the sales ranges by type of business under study.

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Abbreviations

CIAT	Inter-American Center of Tax Administrations
CINDE	Costa Rican Coalition for Development Initiatives
DESA	United Nations Department of Economic and Social Affairs
DGT	Directorate General of Taxation
EDDI	Digital submission of tax returns
GDP	Gross domestic product
GETES	Large territorial enterprises
IFC	International Finance Corporation
ISIC	International Standard Industrial Classification of all Economic Activities
MSME	Micro, small and medium enterprises
SIIAT	Integrated Tax Information System
SME	Small and medium enterprises
TA	Tax administration

Part Three

Country Study: Uruguay

Executive Summary

1. In 2012, tax transaction costs were equivalent to 1.5 per cent of gross domestic product (GDP) in Uruguay. The tax compliance costs incurred by taxpayers accounted for 1.31 per cent, while the administrative costs of the tax administration accounted for 0.188 per cent.
2. Micro, small and medium enterprises (MSMEs) comprise an important segment of businesses in Uruguay. According to the definition provided by the United Nations Department of Economic and Social Affairs (United Nations-DESA) and the Inter-American Center of Tax Administrations (CIAT), the vast majority of businesses in the country (97 per cent) are micro and small enterprises. Only 3 per cent of them fall within the definition of medium-sized companies (with sales revenue of US \$1.2 million–\$8.9 million).
3. The average weighted cost per business was US \$2,808 a year. For those paying the minimum value added tax (VAT), the cost was US \$1,435 a year, while for those termed “Non-CEDE” taxpayers (explained below) it was US \$2,796 and for CEDE taxpayers it was US \$7,033. These differences are explained by the companies’ external costs, especially the use of external advisers, which account for almost 75 per cent of total costs. As these costs are fixed, when they are analysed as a percentage of sales, it is clear that compliance costs are regressive for microenterprises (equivalent to 1.21 per cent of sales). For small and medium businesses they are equivalent to 0.28 per cent and 0.03 per cent of sales, respectively.
4. An average business spends 241 hours a year complying with its tax obligations. Some 64 per cent of them said that they use external advisers for such compliance. This information is interesting, inasmuch as it reveals certain opportunities for improvement in some processes.
5. As regards administrative costs, staff remuneration is the leading item in the budget of Uruguay’s General Tax

Directorate (GTD). Hence, the methodology of resource allocation by installed capacity is consistent with the calculations performed. There is a marked concentration of administrative costs in tax control, and a consequent relationship between spending on control and compliance costs. Almost 20 per cent of respondents said that they were subject to control actions on the part of the tax administration, mainly a result of formal controls and verification of discrepancies in tax returns and payments.

6. Administrative costs are equivalent to 0.188 per cent of GDP. There is a marked concentration of administrative costs (0.14 per cent of GDP) in intensive control actions, specifically those geared to CEDE and non-CEDE taxpayers. This finding is to be expected, given that the staff of the GTD is proportionately assigned to these areas of control.

Chapter I

General aspects of the Uruguayan tax system

1.1 Economic and business structure of Uruguay

Uruguay, officially known as the Oriental Republic of Uruguay, is located in the eastern part of the Southern Cone. It borders Brazil to the north-east and Argentina to the west, and has coasts on the Atlantic Ocean and the River Plate. It covers 176,000 km² and territorially it is the second smallest country in South America after Suriname. It has a population of 3.29 million (National Institute of Statistics (INE) 2012), the tenth largest among the countries of South America.

Uruguay is a presidential republic, divided into 19 departments and 89 municipalities. The capital and the largest city is Montevideo, with 1.32 million inhabitants and about 2 million in its metropolitan area (nearly 58.8 per cent of the national total).¹

Figure 1:
Map of Uruguay



¹The departments of Montevideo, Canelones and San José are regarded as the metropolitan area.

Table 1:
Population of Uruguay by department

Country total	Population	Percentage
	3 286 314	100.0
Montevideo	1 319 108	40.1
Canelones	520 187	15.8
Maldonado	164 300	5.0
Salto	124 878	3.8
Colonia	123 203	3.7
Paysandú	113 124	3.4
San José	108 309	3.3
Rivera	103 493	3.1
Tacuarembó	90 053	2.7
Cerro Largo	84 698	2.6
Soriano	82 595	2.5
Artigas	73 378	2.2
Rocha	68 088	2.1
Florida	67 048	2.0
Lavalleja	58 815	1.8
Durazno	57 088	1.7
Río Negro	54 765	1.7
Treinta y Tres	48 134	1.5
Flores	25 050	0.8

Source: National Institute of Statistics (2012).

Uruguay is an agro-exporting country in which agricultural goods (rice, wheat, corn, sunflower, sorghum, barley, soya and sugar cane) and livestock (cattle and sheep) are the crucial resources. The main industries are frozen goods, dairy products and by-products, textiles, paper and cardboard, fertilizers, alcohols, cement and refining hydrocarbons.

The services sector (financial, logistics, transport and communications) is also prominent, as well as the information technologies industry, especially software development and related services. Uruguay is the biggest software exporter per capita in Latin America and the fourth in absolute terms, behind Argentina, Brazil and Mexico (Bastos Tigre and Silveira Marques, 2009).

Tourism is another crucial source of income: Uruguay's coastlines on the River Plate and the Atlantic Ocean have resorts, notably Punta del Este and Piriápolis.

Uruguay was the only country in Latin America to avoid the global recession in 2008 and 2009, a circumstance attributed to fiscal discipline and policy adaptability.

Table 2:
GDP and inflation, 2010 – 2012

(Annual percentage variation)

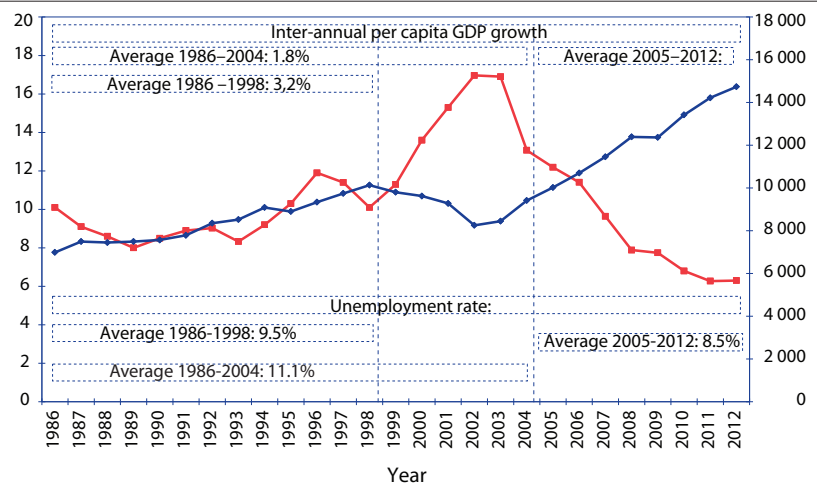
Indicator	2010	2011	2012
Gross domestic product	8.9	6.5	3.8
Inflation	6.9	8.6	9.1

Source: CEPALSTAT data.^a

^aSee http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp

Uruguay has a GDP of more than US \$30 billion, and its per capita GDP stands at almost US \$10,000, that is to say, US \$14,296 at purchasing power parity (PPP) in 2011, making Uruguay Latin America's fourth-largest economy after Argentina, Chile and Mexico (Observer.Com, 2011).

Figure 2:
Per capita GDP and unemployment



Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

According to the INE, unemployment was at 5.5 per cent in December 2012. According to INE’s methodology (income method), some 12.4 per cent of the population were living in poverty in 2012² and 0.5 per cent were indigent (in extreme poverty). There has been a constant declining trend since 2006.

1.2 Characteristics of MSME in Uruguay

Micro, small and medium enterprises (MSMEs) account for 98 per cent of the country’s economic units and generate 49.6 per cent of formal jobs (Méndez, 2013). Three studies were found to be particularly helpful for an analysis of the factors that affect the business decisions of MSMEs: two centering on Uruguay itself and another with an international focus.

1.2.1 National survey of commercial, industrial and services MSMEs (Dinapyme, 2012)

In 2012, the Ministry of Industry, Energy and Mining (MIEM), through its National Directorate of Crafts, Small and Medium Enterprises (Dinapyme), carried out a nationwide survey of commercial, industrial and services MSMEs (Dinapyme, 2012). The survey gathered information on 2,029 MSMEs, representing a total of 136,691 workers in Uruguay.

Table 3:
Types of business, by size

Size	Workers	Annual sales (US dollars) ^a	Number	Percentage
Micro ^b	1 to 4	<259 140	114 456	84
Small	5 to 19	<1 295 690	18 399	13
Medium	20 to 99	<9 717 690	3 836	3
Total			136 691	100

Source: Dinapyme (2012).

^aMicroenterprise: sales <200,000 indexed units (IU); small business: sales <10,000,000 IU; medium business: sales <75,000,000 IU. Indexed units = 2.5266 (source: National Institute of Statistics). US \$1 = UP \$19.50 (Uruguayan pesos; source: National Institute of Statistics).

^bIncludes 59,049 one-person businesses.

²That is to say, 12 in every 1,000 people lacked the minimum income to meet basic nutritional and non-nutritional needs.

This survey revealed that:

- Some 53 per cent of MSMEs were based in Montevideo. Services comprised the largest branch (53 per cent), followed by commerce (37 per cent) and industry (10 per cent). Most were set up recently: 64 per cent began their activities after 2000.
- Some 58 per cent of the directors of these companies were men, but women's share of these positions had increased significantly since 2008, rising from about 30 to 40 per cent. Entrepreneurs were younger than they were four years ago (only 11 per cent are older than 60) and were relatively well educated: 83 per cent have secondary or higher education.
- The most common form of MSME, accounting for 70 per cent of the total, was the one-person business, which has lower economic costs and faces fewer bureaucratic procedures.
- Most MSMEs sell on the domestic market. Microenterprises sell mostly in the local neighbourhood (48 per cent) while medium-sized businesses sell mostly to the rest of the country (45 per cent).
- The rate of computer use is similar to that for households (65 per cent), although it is important to note that among small and medium enterprises the penetration is much higher.
- The rate of training among MSMEs has increased from 35 to 40 per cent over the past four years. Experiences of innovation, however, had fallen since the last survey, when 60 per cent of business owners had such experiences; in 2012 the corresponding rate was 46 per cent.

Table 4:
Business size by activity and region

(Percentage)

Business size	Sector of activity			Region		Total
	Industry	Commerce	Services	Montevideo	Interior	
Micro	72	86	85	82	85	84
Small	22	13	12	14	12	13
Medium	6	2	3	3	2	3
Total	100	100	100	100	100	100

Source: Dinapyne (2012).

As regards the General Tax Directorate (GTD) or tax matters affecting MSMEs, the national survey only considered the question: in which public agency did you experience the worst procedure? Respondent MSMEs indicated that the GTD offered the third-worst experience of a public agency (15 per cent), after the Social Security Bank (Banco de Previsión Social, BPS) (24 per cent) and municipal offices (23 per cent). When asked in which public offices it was most cumbersome to carry out a procedure, respondents again mentioned municipal offices (29 per cent), the BPS (23 per cent) and the GTD (16 per cent). It was interesting to note that 37 per cent of respondents said that they delegated the processing of bureaucratic procedures in general, and did not do it themselves.

1.2.2 Informality among MSMEs in Uruguay; Analysis of the costs of formality (Dinapyme, 2009)

Dinapyme commissioned an analysis which focused on the informal sector in Uruguay, its causes and associated costs. Some of its findings and conclusions, especially those related to tax transaction costs, are highlighted below.

- The costs of formality fell into two broad groups: (a) the costs of legalization (those incurred in the process of legalizing an enterprise by making it formal); and (b) the costs of legality (those that were repeatedly incurred because the enterprise was operating legally).
- The costs of legality include direct costs (such as taxes, fees and social security contributions) and indirect costs (those related to administrative and tax management).
- Tax compliance costs were counted among indirect costs in the present study.
- A tax policy recommendation entailed reducing both direct and indirect fiscal pressure. Tackling the direct pressure would involve tools that tend to reduce the overall fiscal burden; dealing with the indirect pressure would require making it easier to carry out all the bureaucratic procedures needed to comply with tax laws.

- The indirect pressure would be reduced if bureaucratic procedures were simplified, especially those required to comply with value added tax (VAT).
- It was recommended that the taxation of small businesses should allow a gradual move from single-tax taxpayer status to the general regime on an automatic and involuntary basis.
- There were immediate and more medium-term measures to solve the problem of the informal economy, among which reducing the tax costs of formality were significant.

1.2.3 Uruguay in *Doing Business/Paying Taxes* (World Bank-International Finance Corporation, 2013)

The rankings in the *Doing Business* report of the World Bank and the International Finance Corporation offer an international indicator to help outline the general characteristics of the business environment in which companies operate.

In 2013, Uruguay was ranked at 89, and performed notably in the areas of access to electricity (20), starting a business (39) and resolving insolvency (54). The country ranks below the Latin American average in: registering property (164), construction permits (158) and paying taxes (140).

As regards paying taxes, Uruguay has moved up 24 places relative to 2012. The report indicates that companies in Uruguay spend 310 hours a year complying with tax requirements.³ This is below the average for Latin America and the Caribbean.

Table 5:
Doing business, 2012 – 2013

Indicator	DB 2012	DB 2013
Ranking	87	89
Payments (per year)	53	33
Time (hours per year)	336	310
Tax rate (percentage)	42	42

Source: World Bank-IFC (2013).

³Income tax, 88 hours; social security contributions, 114 hours; VAT, 108 hours.

The evidence indicates that taxes are not the only factor affecting MSME decisions and behaviour, but there is scope to continue lowering the costs that those factors generate.

1.3 Tax system and institutional setup

1.3.1 Uruguay's new tax system

As part of the commitments made by the national government in Law No. 18.083 of 20 December 2006, a new tax system was introduced on 1 July 2007 with the following basic goals:

- To foster a more equitable distribution of the tax burden, with a higher share of direct taxes;
- To improve the efficiency of the tax system; and
- To provide an appropriate stimulus to productive investment.

The tax system has, therefore, been simplified. The number of taxes has been reduced; distortionary taxes that brought in little revenue have been eliminated; existing exceptions and exemptions have been reviewed; and personal income tax has been introduced.

This latter reform sought equity in the sharing of the tax burden, by obliging everybody who obtains income from any Uruguayan source to make a contribution to State spending.

Thus, the GTD went from managing a population of taxpayers that were mainly companies to managing a new population comprising those subject to individual income tax. There were about 215,000 parties liable for tax before the reform; more than 550,000 have registered since then. Hence, the taxpaying population grew by more than 250 per cent.

The taxes in the new system are:

- Excise/indirect taxes
 - VAT
 - The Specific Internal Tax (IMESI)
- Taxes on income and profits
 - Tax on Income from Economic Activities (IRAE)

- Tax on the Transfer of Agricultural Goods (IMEBA)
- Personal Income Tax (IRPF)
- Social Security Assistance Tax (IASS)
- Tax on the Income of Non-Residents (IRNR)
- Property taxes
 - Net worth tax
 - Property Transfer Tax (ITP)

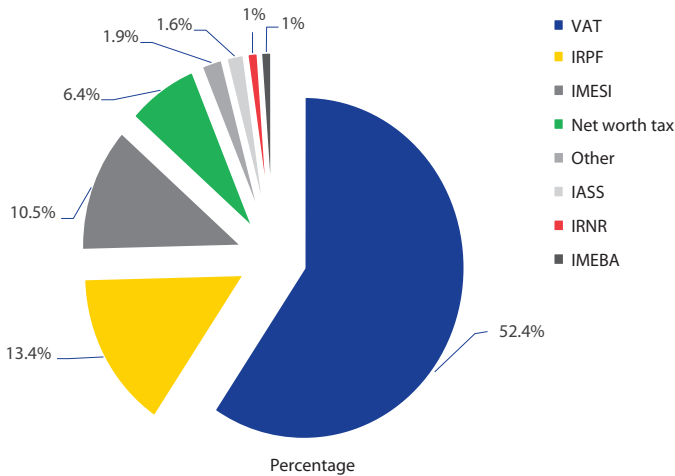
Table 6:
Uruguayan tax system

Tax	Tax base	Rate
VAT	Levied on the internal movement of goods, provision of services, admittance of goods into the country and added value of real estate.	22 per cent 10 per cent Exemptions
Specific internal tax (IMESI)	Levied on the first transfer of certain goods by their manufacturers and importers. Affected products: alcoholic and non-alcoholic beverages, cosmetics, tobacco, vehicles, lubricants and greases, fuels.	Several rates according to product
Tax on income from economic activities (IRAE)	Levied on business income, usually corresponding to the transfer of real estate and income covered in personal income tax (optional or mandatory).	25 per cent Exemptions: * small businesses, 305,000 IU * Single-tax payer, 152,500 IU for one-person businesses and 305,000 IU for companies * Investment promotion
Personal income tax (IRPF)	Levied on Uruguayan-source capital income or labour income received by residents.	Scale of progressive rates for labour income and rates of 12 per cent and 7 per cent for capital gains according to their type.

<p>Net worth tax</p>	<p>Levied on the ownership of assets within the national territory, the taxable base being the difference between taxable assets and deductible liabilities on 31 December for individuals, or at the end of the tax period for businesses.</p>	<p>Individuals: There is a tax-free minimum of UP \$2,383,000 for 2011 and progressive rates. Businesses: There is no tax-free minimum; single rate of 1.5 per cent.</p>
<p>Tax on the transfer of agricultural goods (IMEBA)</p>	<p>Levied on the first transfer made by agricultural producers to the following actors, which withhold the corresponding IMEBA:</p> <ul style="list-style-type: none"> • IRAE taxpayers who are not agricultural producers; • municipal administrations; • State agencies. 	

Figure 3 shows the share of the new tax system’s various taxes in total gross tax revenue for 2012.

Figure 3:
Share of total gross tax revenue, 2012



Source: Based on information provided by the General Tax Directorate, Ministry of Economy and Finance, Uruguay (February 2013).

It is clear that revenue is strongly concentrated in VAT (52.4 per cent), followed by Personal Income Tax or IRPF (13.4 per cent) and the Tax on Income from Economic Activities (12.1 per cent).

1.3.2 General Tax Directorate (GTD)

The General Tax Directorate (GTD) is part of the Ministry of Economy and Finance (MEF), and is responsible for managing the country's internal taxes. Its mission is to obtain the revenue from State resources arising from the internal tax system by effectively applying the system's underlying regulations, promoting voluntary compliance by taxpayers, and fighting fraud and tax non-compliance in a framework of respect for taxpayers' rights, while acting with integrity, efficiency and professionalism in order to provide a good service to citizens.

The budget of the GDT is allocated by the MEF on a five-year basis for the corresponding period of government.

MEF Decree No. 166/005 of 30 May 2005 approved the restructuring of the GTD as well as the performance assessment system for full-time GTD officials.

The first level of the organizational structure comprises the General Tax Directorate with its eight divisions: collection and extensive controls, inspections, administration, taxpayer assistance, information technology, technical-fiscal matters, the interior (of the country), and large taxpayers. The General Tax Directorate also has three advisory bodies (the office of the tax adviser, the economic advisory office, and the advisory office on planning, organization and control), as well as an office of internal auditing and a department of administrative technical support.

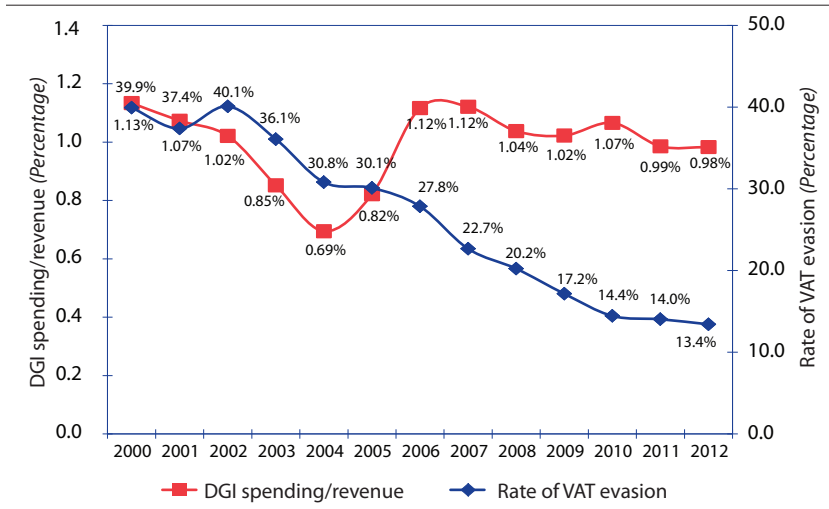
In line with the tax administration's processes, its substantive functions are assigned to the divisions of collection, control, technical-fiscal matters, the interior and large taxpayers.

The support functions required for the effective and efficient performance of the substantive tasks are mainly assigned to the divisions of administration and information technology, which manage human, material and technological resources.

The GTD has its headquarters in Montevideo and offices in 44 locations throughout the national territory.

The GTD regularly estimates VAT evasion in order to assess the effectiveness of its work and the relationship between evasion and the level of economic activity. In the period 2000–2012, there was a significant and sustained decline in evasion.

Figure 4:
Evasion levels and administrative costs



Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

1.3.3 Estimating tax evasion

Tax evasion is a deliberate action to evade the payment of taxes established by law. It is illegal. It should be distinguished from tax avoidance, which consists of actions that seek to avoid paying taxes using means allowed by law or made possible by legal loopholes.

Combating evasion is one of the main activities of GTD in its efforts to implement the tax laws effectively and foster voluntary compliance.

The Economic Advisory Office of the GTD has estimated the rate of evasion of income tax (2000–2010) and VAT (2000–2012).

(a) Evasion of tax on income from economic activities tax:

To calculate potential revenue from the Tax on Income from Economic Activities (IRAE), the taxable amount must be approximated with the corresponding macroeconomic aggregate, which is the operating surplus. The taxable amount is the maximum between the calculation of fiscal income according to the tax regulations and zero (because if taxpayers have negative income, they do not submit a tax return — without prejudice to the fact that they have to pay the mandatory minimum).

For the operating surplus to approximate the taxable amount, some “changes” must be made to it — that is to say, to disregard the surplus that derives from exempt income⁴ and make the tax adjustments provided for in the legislation, unadmitted earnings and incremental deductions.⁵

Figure 5 shows evasion of the IRAE in the period 2000–2011.

(b) Evasion of VAT:

Figure 6 shows that one of the prime achievements of the GTD in its efforts to improve voluntary compliance by taxpayers was the sustained decline in VAT evasion over recent years.

1.4 Strategies or reforms geared to tax simplification**1.4.1 Adjustments to the tax system**

The most important strategy for tax simplification was the comprehensive reform of the tax system (see para. 1.3.1 for details), which consisted mainly of:

⁴Exempt income: free-zone users, wood producers, Section E taxpayers, payers of other taxes not included in the Tax on Income from Industry and Trade (IRIC)/Tax on Income from Economic Activities (IRAE).

⁵Corresponding to costs that, by law, can be deducted by one and half times their actual amount: staff training in priority areas; fees for specialist assistance in priority areas; fees for quality certification or to obtain accreditation by testing laboratories; expenses to include genetic material from animals; spending on software services; and promoting employment.

- Elimination of 17 taxes because they brought in little revenue (a little more than 4 per cent of tax revenue) and had high administrative costs;
- Elimination of VAT exemptions and reduction of aliquots; and
- A general rationalization of the entire system that helped make it simpler.

These measures involved a decision at the highest level of government and they sought not to collect more, but to collect more equitably (Porto, 2010).

In the GTD, part of the system of tax withholding sometimes helps simplification, particularly when the taxpayer can opt for the withholding to be considered as a final tax. That obviates the need to submit a return, and thus the taxpayer is practically without formal obligations to the GTD. This happens, for example, in several chapters of the personal income tax on capital gains, where the withholding system is extensive. It also applies to tax on labour income.

Such situations also arise in businesses. For example, withholdings on IMEBA (Tax on the Transfer of Agricultural Goods) in some cases constitute the final tax for the taxpayer subject to the withholding.

Additionally, Uruguay has created by law a simplified VAT regime called “Minimum VAT” (*IVA Mínimo*)⁶ that applies to taxpayers whose annual income does not exceed 305,000 “indexed units”.⁷

These taxpayers must make a minimum monthly payment of UP \$2,110 (Uruguayan pesos in 2012) in VAT. They are exempt from

⁶The new regime governed by Law No. 18.568 of 1 October 1997 falls within a series of measures designed to promote business formalization. As expressed in the statement of intent, this is particularly relevant in the case of micro and small enterprises — not only because of their significance for economic output but also because of their paramount importance in shaping networks of social cohesion. It is a benefit similar to that conferred by “Microenterprise” Law No. 17.436 of 17 December 2001.

⁷Calculated with the indexed unit on 1 January of each year (on 1 January 2012 the indexed unit was 2.3174 pesos).

the Tax on Income from Economic Activities (IRAE) and the business assets tax, but they pay the special social security contributions.

There is a process of gradual contributions to this regime, whereby these businesses pay only 25 per cent of the quota during the first fiscal year of their establishment, 50 per cent during the second year, and 100 per cent from the third year.

Figure 7 illustrates revenue trends in this simplified regime and shows the sustained growth from 2002 onwards. The regime accounts for only about 0.34 per cent of total tax revenues but, because it is simple to assess and pay, its main aim is to encourage businesses to join the formal sector.

1.4.2 Electronic and online methods to reduce tax compliance costs

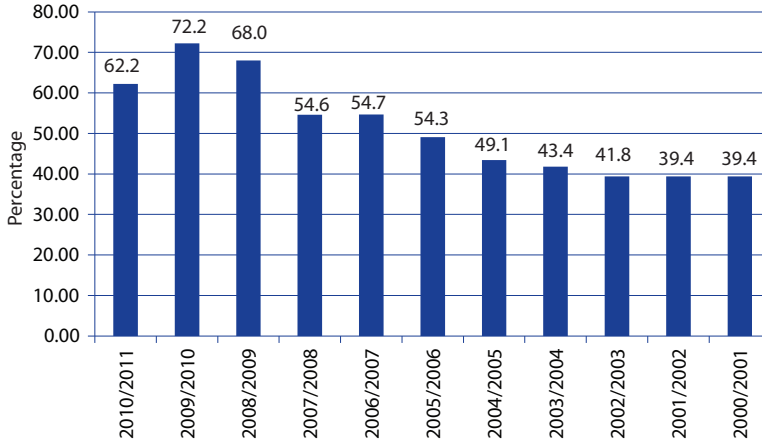
Procedures have been introduced, both online and via a call centre, to help lower compliance costs (CC). These include enabling taxpayers to request a Certificate of Good Standing (certifying that a taxpayer is up to date with tax payments), to modify registration data, and to make queries about payment and withholdings. Of course, taxpayers can also use the Internet to submit tax returns and make payments.

A platform for smart phones is now being developed, which will enable taxpayers to submit various queries and make payments.

Draft tax returns are sent yearly to payers of personal income tax and the Social Security Assistance Tax (IASS). These can be consulted and accepted online, thereby obviating the need for a return to be drawn up and subsequently submitted.

Figure 5:
Evasion of tax on income from economic activities (IRAE), 2000 – 2011

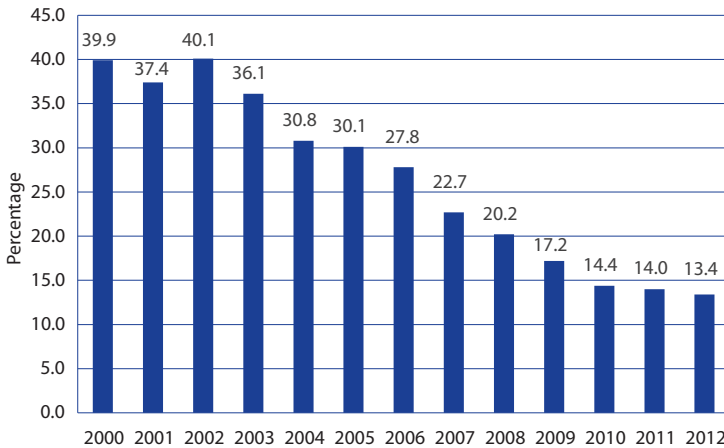
(Percentage of potential revenue)



Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

Figure 6:
Evasion of VAT, 2000 – 2012

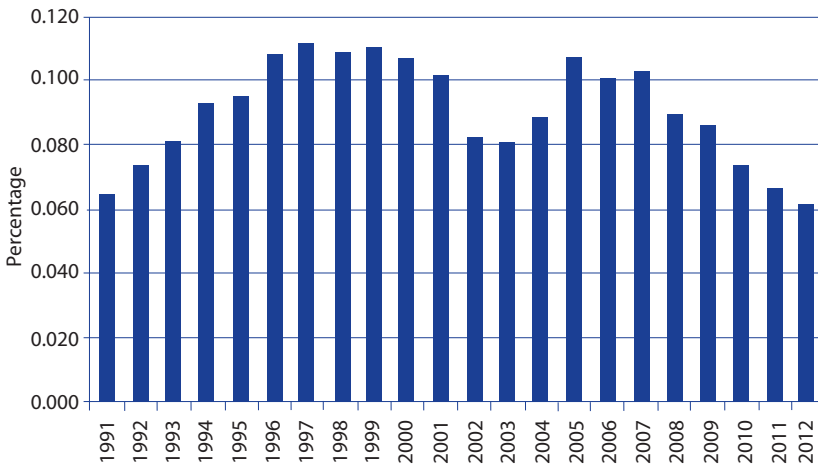
(Percentage of potential VAT revenue)



Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

Figure 7:
Revenue from “Minimum VAT”^a

(Percentage of GDP)



Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

^aTo July 2007: IRIC Section E, Art. 33 T.4. T.O. 1996. Since July 2007: Minimum VAT of taxpayers included in Section E, Art. 52 T.4 T.O. 1996.

Illustration 1:



Todos los usuarios

Registro Único Tributario

- Inscripciones

Pagos

- Boleto de pago 2901 - Impresión
- Pagos Web - Persona Física y contribuyentes NO CEDE
- Cálculo de recargos

Declaraciones

- Borradores IRPF-IASS - Consulta **Nuevo**
- Envío de declaraciones

Devoluciones

- Devoluciones IRPF-IASS-IRNR - Consulta **Nuevo**

Certificados

- Certificado único - Solicitud
- Certificado único - Consulta

Clave

- Activación clave web

Otros Servicios

- Expedientes administrativos - Consulta
- Valor patente vehículos 2012 - Consulta

Usuarios registrados

Ingreso a servicios en línea

RUT:

Clave:

Ingresar

Servicios disponibles para usuarios registrados

Registro Único Tributario

- Modificaciones
- Constancia de inscripción - Impresión
- Consulta de Dato

Pagos

- Boleto de pago Grandes Contribuyentes y CEDE - Impresión
- Pago Web Grandes Contribuyentes y CEDE
- Consulta

Declaraciones

- Borradores IRPF - IASS **Nuevo**
- IRAE Agropecuario - Borrador
- Declaraciones enviadas - Consulta
- Declaraciones presentadas - Consulta

Retenciones y anticipos

- Retenciones - Consulta
- Anticipos Grandes Contribuyentes y CEDE - Consulta

Chapter II

Tax transaction costs in Uruguay

2.1 Methodological aspects of the country study

Tax transaction costs (TTC) have two components: administrative costs and compliance costs. Administrative costs are those that the State incurs to administer the tax system, while compliance costs are those that taxpayers incur to comply with the system.

Tax transaction costs consist of:

$$\text{TTC} = \text{CC} + \text{AC}$$

Where:

TTC = tax transaction costs

CC = compliance costs to the taxpayer

AC = administrative costs of the GTD.

In line with the United Nations-DESA and CIAT methodology, the measurement was carried out as follows:

Phases of the study on measuring TTCs in MSMEs in Uruguay

Phase 0. Start-up		
Identifying the general context; detailed understanding of the regulatory and administrative framework of the tax(es) to be analysed. It is important to understand the institutional framework, procedural maturity and political support for a possible reform geared to tax simplification.		
Phase 1. Preparatory		
Defining the undertaking's financial resources and training the local technical team. In this phase it is important to analyse the financial viability of hiring an external organization to conduct the survey, as well as the quality of the internal information that will allow the TTCs to be determined.		
Phase 2. Analysis		
	Step 1	Identifying the information obligations, requirements and tax transactions, as well as the GDT's main internal indicators on the tax cycle

	Step 2	Identifying the regulations relating to taxes and procedures
	Step 3	Identifying the business segments relevant to the study
	Step 4	Identifying the target group and transaction frequency
	Step 5	Identifying related regulations
Phase 3. Measurement		
	Step 6	Measuring compliance costs
	Step 7	Measuring administrative costs
Phase 4. Reports		
	Step 8	National-level extrapolation of the data obtained
	Step 9	Final results report and determination of the simplification plan

Source: United Nations-DESA and CIAT. Part One of the present study.

2.1.1 Definition of micro, small and medium enterprises (MSME)

The National Directorate of Crafts, Small and Medium Enterprises (Dinapyme), Ministry of Industry, Energy and Mining (MIEM), is in charge of policies to promote businesses in the industry, energy and mining segment.

The classification criteria were established in Decree No. 504/07 of 20 December 2007, as shown in Table 7.

Table 7:
Criteria for business classification

Type of business	Staff ^a	Annual sales excluding VAT ^b must not exceed the equivalent of	Annual sales in UP \$ (pesos) and US \$ (at annual average IU) ^c
Micro	1 to 4	2,000,000 IU	UP \$4.8 million (US \$0.2 million)
Small	5 to 19	10,000,000 IU	UP \$24.2 million (US \$1.2 million)
Medium	20 to 99	75,000,000 IU	UP \$181.4 million (US \$8.9 million)

Table 7: (cont'd)

Type of business	Staff ^a	Annual sales excluding VAT ^b must not exceed the equivalent of	Annual sales in UP \$ (pesos) and US \$ (at annual average IU) ^c
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^aStaff includes those people employed in the business as well as owners or partners on whose behalf social security contributions are made.

^bAnnual turnover is understood as net sales excluding VAT after returns and/or discounts.

^cIU = indexed units.

It was deemed best to measure transaction costs using the MIEM's definition of micro, small and medium enterprises (MSMEs). Table 8 shows the distribution of taxpayers in line with that definition: about 65 per cent are microenterprises and 26 per cent are small businesses.

Table 8:
Number of taxpayers by size^a

Type of business	Taxpayers	
	Number	Percentage
Micro	56 239	65
Small	22 446	26
Medium	7 010	8
Large	1 380	2
	87 075	100

Source: Based on information provided by the Economic Advisory Office of the General Tax Directorate, Ministry of Economy and Finance, Uruguay.

^aAccording to IRAE payments, 2009. Includes businesses for which both employment and sales information is available.

2.1.2 Taxpayer survey

The survey design took into consideration the model survey for measuring transaction costs in small and medium enterprises (SMEs) proposed in Part One of this study. That survey was adapted to the particular characteristics of the Uruguayan tax system.

The adaptation of the survey involved input from officials of the Economic Advisory Office and the Office of Taxpayer Services in the General Tax Directorate. Their operational experience, expertise

and knowledge of taxpayers were crucial in adapting the survey's terminology, as well as the scope of the questions. The survey conducted is presented in annex II to this country study.

2.1.3 Sample selection criteria

In agreement with the local team from the Economic Advisory Office, the following criteria were used to determine the population of taxpayers and therefore the selection of the sample.

- (a) Registered in the taxpayer categories CEDE, non-CEDE and small business:

As defined in the VAT Act, small businesses are those subject to the simplified VAT and income tax regime.

CEDE⁸ taxpayers are a group defined in the legislation as subject to more stringent control. They are second in importance to those termed "large taxpayers" and are followed in turn by the remaining taxpayers, termed non-CEDE — that is to say, they are not subject to CEDE control.

These businesses must submit monthly sworn tax returns on VAT payment and advance payments, as well as an annual sworn statement with the balance. In these cases, more accounting and tax work has to be done to comply with tax obligations.

Table 9:
Categories of taxpayers selected for the study

Taxpayer type	Number	Percentage
Large taxpayers	301	0.13
CEDE	9 827	4.16
Non-CEDE	197 687	83.66
Small businesses	28 497	12.06
Total	236 312	100.00

Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy and Finance, Uruguay.

⁸CEDE = Special Control of Enterprises. They are those that, by virtue of their turnover or sales volume, are included by the General Tax Directorate in a special group for the purpose of greater control.

(b) Engaged in activity:

The local team suggested defining active taxpayers as those that regularly submitted returns or made payments to the GTD in 2012. This was to ensure that surveyed taxpayers would answer the survey questions and provide useful information. Taxpayers subject to IMEBA (small-scale payers engaged in agricultural activity) were excluded. Some taxpayers subject to VAT and IRAE (general regime) were in the agricultural sector, but because of their size they were indistinguishable from any other non-agricultural taxpayer.

Account was taken of the criterion of legal residence — that is to say, the address indicated by the taxpayer for GTD control rather than the tax residence where economic activities are carried out.

Taxpayers were highly concentrated in Montevideo. Nonetheless, online completion of the survey allowed taxpayers outside Montevideo to be surveyed. This was not to be a constraint on the selection of those in the sample.

2.1.4 The survey: adjustment and final format

The survey presented in the United Nations-DESA and CIAT study was adapted to Uruguayan legislation and circumstances. It was mainly reviewed in conjunction with officials from the Office of Taxpayer Services and the Economic Advisory Office, and in meetings with other experienced officials.

The main adjustments made to the survey were as follows:

- Including a question on the usefulness of the Certificate of Good Standing or the Annual Validity Certificate⁹ and the channel through which they are obtained.

⁹This is necessary to perform many procedures and transactions so that the company can operate, import, issue invoices, submit bids in tenders, and obtain or renew bank credits. The law states the effects of suspension of the GTD certificate: “A) This certificate affirms that its holders have effected payment of taxes administered by the GTD, are not subject to such taxes, or are still within the timeframe available to effect payment.” To be considered in good standing by the GTD, the taxpayer must not have this certificate invalidated or suspended.

- Adapting the taxes to the tax regime currently in force in Uruguay.
- Not mentioning the simplified regime but rather what is known as the “Minimum VAT” (Section E, article 52, title 4 of the T.O. 1996).
- Using the Uruguayan peso (UP \$) as the survey’s monetary unit.
- Collection networks were included as the place for submitting returns and/or making payments, given that they are particular to Uruguay.

The final version of the survey is presented in Annex II to this country study.

2.1.5 Sample size

The survey was developed as an online form and thus was not confined to a particular location in order to facilitate its completion.

Simple random sampling was used, in three segments: CEDE, non-CEDE and Minimum VAT. The formula used to determine the sample size for each segment was as follows:

$$N = \frac{P \cdot \alpha^2 \cdot Z^2}{(P-1) \cdot e^2 + \alpha^2 \cdot Z^2}$$

Where:

N = sample value

P = number of taxpayers among the ranks of SMEs

α = standard deviation of the population (suggested 0.5)

Z = confidence level (95 per cent)

e = acceptable limit of error (3 per cent).

$$P = 236,312$$

$$A = 0.5$$

$$Z = 95\%$$

$$e = +/-3.5\%$$

$$N = 750$$

Hence, the sample yielded at least 250 valid surveys for each segment, or a total of 750 valid surveys.

2.2 Compliance costs

The tax compliance cost component can be expressed as follows:

$$CC = IC + EC$$

Where:

TTC = taxpayer's tax compliance cost

CC = internal costs

AC = external costs.

The compliance cost is the sum of internal and external costs. Internal costs include labour and non-labour costs. For the purposes of this study, direct labour costs are defined as those incurred when a business uses its own staff to work on activities related to compliance with that business's tax obligations. Internal costs also include additional non-labour costs incurred by the business.

External costs are defined as those paid by a business to third parties in order to comply with its tax obligations, the service rendered by the third party requiring payment by the business.

One of the main difficulties in measuring compliance costs is determining the time (hours per month) that taxpayers spend on complying with their tax obligations. The task of converting time into monetary values depends on the accurate estimate of the number of hours worked and the value assigned to each hour.

Internal costs, being a result of work undertaken by a business's internal staff, are calculated according to the time that those staff members spend on tasks required for tax compliance.

Thus, internal costs are expressed as follows:

$$IC = T_A * V_A + AS$$

Where:

IC = taxpayer's internal costs

T_A = time (in hours per year)

V_A = value of time

AS = administrative spending.

2.2.1 Internal or direct costs

Internal or direct costs are the component of tax compliance costs related to costs incurred by the business when it uses its own resources to comply with its tax obligations.

2.2.2 Calculating the number of hours (T_A)

The survey regarded the following processes as part of direct costs, and the surveyed companies reported the corresponding times in hours.

Table 10:
Direct costs: Processes and reported frequency

Process	Frequency
Time to obtain information/learn about the tax obligations of the business	Yearly
Time to register with the GTD or update tax information	Yearly
Time to complete tax return forms	Monthly
Time to submit the returns	Monthly
Time to pay tax obligations	Monthly
Time to meet the control requirements	Yearly
Time to prepare a refund request	Yearly
Time for appeal to the GTD	Yearly

As regards the submission of forms, the survey asked taxpayers how long it took them to complete and submit such forms, as well as to make the corresponding payments, for each of the monthly, quarterly and annual tax obligations.

If a taxpayer mentioned that the process of completing a return took a number of hours a month, this was multiplied by 12 to obtain the annual data. These times were accumulated and

extrapolated to the annual period using the expansion factor for each type of taxpayer and tax regime. The expansion factor is interpreted as the number of businesses in the population, which represents a business in the sample.

The estimate of the total given for a variable was obtained by weighting the value of it by its expansion factor and then adding all the companies in the sample.

As regards refunds, claims to the GTD and tax control, it was assumed that these processes occurred only once a year and, therefore, that the survey data corresponded to an annual period.

In that regard, the survey allowed the time taxpayers spent on regular activities linked to compliance with their tax obligations to be quantified.

Table 11 shows that about 52 per cent of respondents took more than six hours to do the bookkeeping for their business. This is the case for those who serve as external tax advisers and for in-house employees responsible for tax matters.

Figure 8:
Average time to complete tax return forms by tax

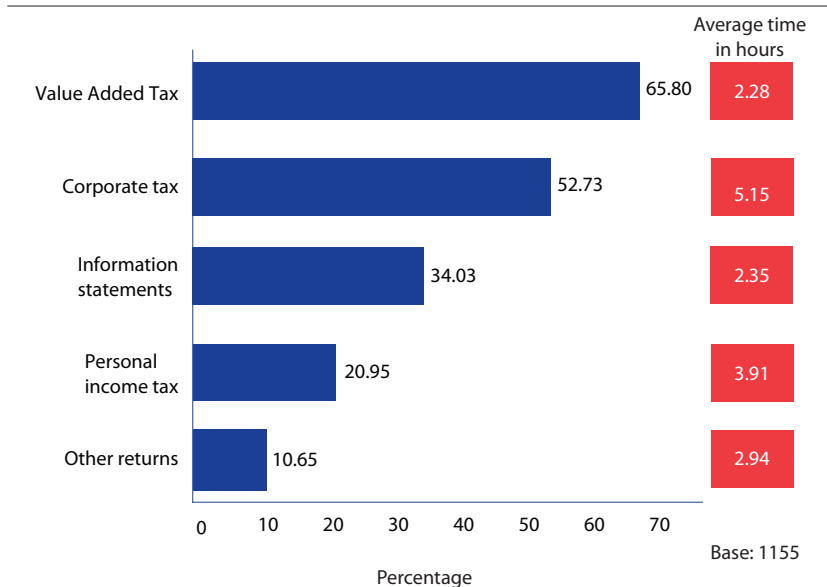


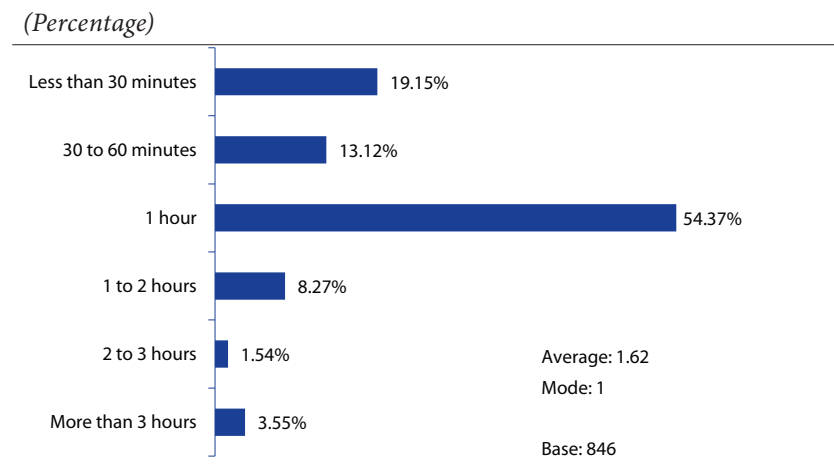
Table 11:
Time to register transactions in accounting records by position of respondent taxpayer

(Percentage)

Time it takes per month to register business and financial transactions in accounts	What is your position in the business?					Total
	External tax adviser	Owner	Employee	Manager	Staff member responsible for tax matters	
Less than 1 hour	4.95	11.55	3.23	0.00	6.67	6.87
1 hour	9.67	18.77	4.84	2.86	13.33	12.29
1 to 2 hours	8.73	13.72	8.06	0.00	6.67	9.63
2 to 3 hours	6.37	6.86	1.61	0.00	1.90	5.43
3 to 6 hours	12.97	15.88	6.45	8.57	20.00	14.06
More than 6 hours	57.31	33.21	75.81	88.57	51.43	51.72
Total	100	100	100	100	100	100
Base	424	277	62	35	105	903

Figure 8 shows that the average time spent on completing the forms for the Tax on Income from Economic Activity (IRAE) was about 5.15 hours, and 2.28 hours for VAT. It should be noted that VAT and IRAE are taxes for which the surveyed taxpayers reported that they were required to complete a return form.

Figure 9:
Time per month devoted solely to payment of taxes



Some 86 per cent of taxpayers took less than an hour to pay their taxes, and the average was 1.62 hours. Nonetheless, some taxpayers claimed it took more than one hour, and even more than three hours, to complete the process.

2.2.3 Calculating the value of time (V_A)

To quantify internal or direct costs (that is to say, to assign them a monetary value), it is essential to choose the economic value per hour. To that end, the salary of a professional who was responsible for maintaining the accounting records, completing the returns and making the payments was used.

For that purpose, the *Continuous Household Survey 2012* was consulted, allowing the tasks related to the work described above to be identified. Individuals who were at a management or coordinating level were excluded. In other words, a professional in a mid-level position responsible for those tasks was sought.

The average value of UP \$125 per hour (US \$6.25 per hour was used). This was the value used to quantify the hours devoted to tax compliance utilizing a business’s own resources.

2.2.4 External or indirect costs

External or indirect costs is the component of tax compliance costs that refers to the costs incurred by a business to employ the services of a third party in order to comply with its tax obligations.

The online survey which was conducted regarded the following processes as part of indirect costs; the businesses reported the cost in Uruguayan pesos.

**Table 12:
Indirect costs: Processes and reported frequency**

Process	Frequency
Regular spending on invoices, forms, accounting ledgers, software, stamps, etc.	Monthly
Spending to meet tax control requirements	Yearly
Spending to prepare tax refund applications	Yearly
Spending on appeals to the GTD	Yearly
Spending on external adviser for other services	Monthly

2.2.5 Total tax compliance costs

On the basis of the sample data, each of the components by tax process was assessed, consolidating all the hours multiplied by their respective value, and adding external costs and spending for the taxpayers in the sample. The calculations were made for each population subset — that is to say, type of regime and business.

The sample data were extrapolated with expansion factors calculated using the information from the sample, divided by the total population under study, resulting in the following values.¹⁰

¹⁰The expansion factor for a sample-based study is the figure that acts as a multiplier and thereby allows sampling data to be extrapolated to the population — that is to say, to expand the sample. The factor is calculated on the basis of the probability of selection of the elements in the sample, and is the inverse of the probability of inclusion.

Table 13:
Tax compliance costs:
Internal time, T_A

(Hours per year)

Size	Hours/year
Micro	135
Small	269
Medium	319

Considering all the activities carried out using a business's own resources, table 13 shows the direct costs in yearly hours to comply with tax obligations.

This indicates an average of 241 hours per year spent on complying with tax obligations. The total amount (total cost) is the simple sum of each of the population subsets.

The total compliance costs in Uruguay for 2012 were then calculated. The cost for the businesses in the sample was multiplied by the expansion factor, yielding a figure of US \$662.7 million (1.31 per cent of GDP) as the tax compliance cost generated by the Uruguayan tax system.

Table 14:
Annual tax compliance costs

(Thousands of United States dollars)

Regime	Business size			Total
	Micro	Small	Medium	
CEDE	13 872	24 826	30 415	69 113
Non-CEDE	362 741	144 777	45 214	552 732
Minimum VAT	29 226	11 664	0	40 890
Total	405 839	181 267	75 629	662 735

Analysis of the data by business type reveals that microenterprises — given their number and level of concentration — account for US \$406 million of these costs, or 0.80 per cent of GDP. Small and medium enterprises accounted for 0.36 per cent and 0.15 per cent, respectively.

The total sales of the businesses in the sample were calculated on the basis of the averages of each of the ranges, weighted by the number of businesses in the whole population. Compliance costs were equivalent to 1.05 per cent of total sales (average weighted according to the total number of taxpayers by business size). It is apparent that in

the microenterprise segment, compliance costs were equivalent to 1.21 per cent of total sales, while for small and medium enterprises they were equivalent to 0.28 per cent and 0.03 per cent, respectively.

Table 15:
Tax compliance costs

(Percentage of GDP)

Regime	Business size			Total
	Micro	Small	Medium	
CEDE	0.03	0.05	0.06	0.14
Non-CEDE	0.72	0.29	0.09	1.09
Minimum VAT	0.06	0.02	0.00	0.08
Total	0.80	0.36	0.15	1.31

Table 16:
Tax compliance costs

(Percentage of sales)

Regime	Business size		
	Micro	Small	Medium
CEDE	0.48	0.07	0.01
Non-CEDE	0.65	0.19	0.02
Minimum VAT	0.09	0.01	0.00
Total	1.21	0.28	0.03

Compliance costs for businesses are, therefore, regressive in Uruguay, since they are much more onerous for microenterprises than for medium-sized firms.¹¹

Table 17 summarizes 2012 tax compliance costs in Uruguay for micro, small and medium enterprises. It is clear that the burden of these costs shrinks in line with their share of annual sales by business type — that is to say, they are regressive inasmuch as they are proportionately higher for smaller companies.

¹¹Although the term “regressive” is associated with taxes, for the purposes of this study it is used to show that the bigger the company, the lower the transaction cost.

Table 17:
Tax compliance costs

(Percentage of GDP and annual sales)

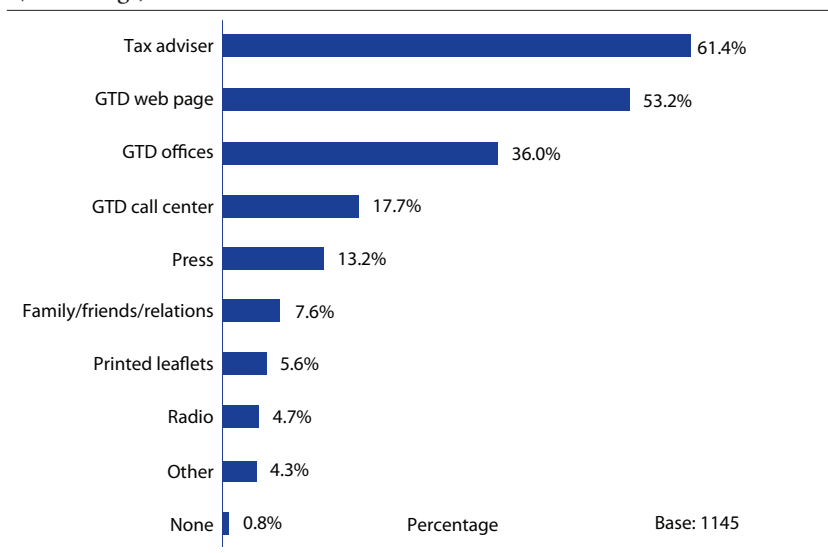
	Percentage GDP 2012	Percentage annual sales
Micro	0.80	1.21
Small	0.36	0.28
Medium	0.15	0.03

Some 64 per cent of the survey respondents said that they paid an external adviser to comply with the various tax processes.

It can thus be inferred that the larger the company the higher the spending on tax advisers, given the greater complexity of the tax issues involved. It is also possible to regulate the role of external advisers, who have a greater capacity than the taxpayer to deal with the tax system, either because of training (in tax accounting) or experience in the field. The tax administration should, therefore, strike a balance that helps offset the taxpayer's opportunity cost.

Figure 10:
Methods used to obtain tax information

(Percentage)



Respondents gave two main reasons for hiring an external adviser: (a) the adviser provided more detailed information than the GTD; and (b) there was a lack of time to go to the GTD to request information.

These findings indicate that there is scope for the tax administration to provide taxpayers with facilities so that they would no longer have to hire an external adviser.

The next most common response was that it was cheaper to hire a tax adviser. Members of this group believed that their opportunity cost was high, and so they preferred to hire someone else to do the work.

Table 18:
Reasons for hiring third-party services

(Percentage)

	First reason	Second reason	Third reason
Lack of information at the GTD office	3.6	2.3	3.3
Lack of information on the GTD website	0.7	2.1	2.0
Lack of information at the GTD call centre	0.8	2.1	2.6
GTD officials do not answer queries adequately	5.5	7.5	3.5
Tax adviser provides more detailed information than the GTD	28.3	11.1	4.4
Lack of time to go to the GTD to request information	17.2	12.4	6.4
Hiring a tax adviser is less expensive	4.0	4.1	4.1
Do not know/no response	1.2	1.2	1.8
Other	4.3	3.6	3.9
Base	758	535	369

It is of interest to note that a tax adviser fills a gap that taxpayers encounter because of what they regard as limitations on the information provided by the tax administration. This could prompt consideration of ways of improving procedures and reducing the external costs incurred by taxpayers. More effective training and deployment within the tax system could forge a direct link between improved learning and lower compliance costs, as taxpayers would have less need to resort to external advisers.

2.2.6 Information and registration

Obtaining information and registering involves three sub-processes for taxpayers: registering or updating data; learning about tax issues; and accounting records. The survey asked taxpayers how many hours they spent on these activities.

As regards learning or obtaining information about tax obligations, irrespective of the type of registration and type of regime, 32 per cent took less than half an hour per month and 22 per cent took more than three hours. In general, there were fairly similar proportions of respondents for each period of time taken.

Table 19:
Time to obtain information/learn about tax obligations

Time per month to obtain information/learn about tax obligations	How is your business registered?		Regime to which it belongs		Total
	Individual	Legal entity	Simplified regime	General regime	
Less than half an hour	36.96	28.14	41.28	29.24	31.59
30 minutes to 1 hour	18.62	9.38	20.35	11.70	13.52
1 hour	10.03	9.78	8.14	10.53	10.02
1 to 2 hours	18.05	16.57	18.60	16.67	17.02
2 to 3 hours	3.15	7.39	2.91	6.29	5.59
More than 3 hours	13.18	28.74	8.72	25.58	22.26
Total	100	100	100	100	100
Base	349	501	172	684	855

Respondents were asked which taxes they were subject to during the previous year. Some 21 per cent reported being in the Minimum VAT regime, while 71 per cent and 60 per cent were subject to VAT and IRAE, respectively.

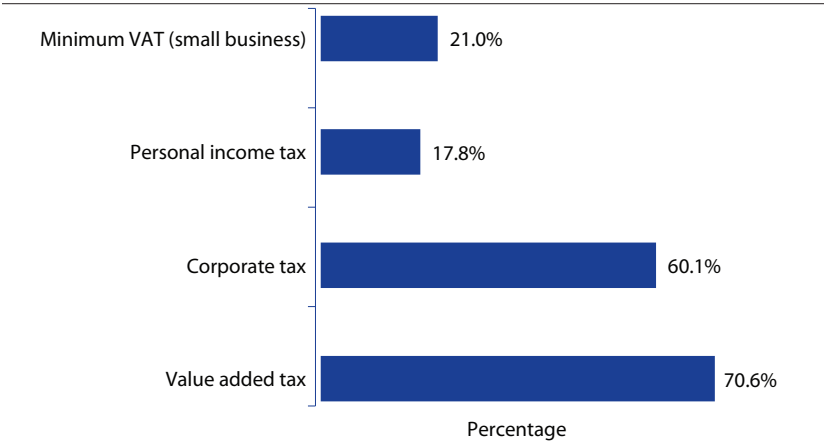
Disaggregated by economic sector, the numbers were quite evenly spread — that is to say, there was no apparent concentration of economic sectors in the simplified regime except among craftspeople, where the rate is 100 per cent.

When asked about the average time per month spent on learning, 51 per cent of those who self-reported as owners said that

they spent less than an hour. Between 18 per cent (staff member responsible for tax affairs) and 33 per cent (manager) reported spending more than three hours a month.

Figure 11:
Taxes to which you were subject during previous year

(Percentage)



Some 75 per cent of taxpayers used the Internet to comply with their tax obligations. Disaggregated by occupational position in the business, the information showed that external tax advisers, managers and in-house staff responsible for tax issues were substantially more familiar with online tools than others in the business, especially owners. The percentages using the Internet ranged from 81.5 per cent (in-house staff dealing with tax) to 92.3 per cent (managers). Owners were less likely to use the Internet to meet their tax obligations.

As to the means of updating registration, 59 per cent of taxpayers did so at the offices of the GTD and 41 per cent did so through its website. There is significant scope to reduce compliance costs by using the Internet to this end. However, as this is a crucial process, the possibility of doing it online could entail some loss of control on the part of the GTD.

An analysis by occupation again revealed that accountants have a greater tendency to use online tools than others. Some 89 per cent of accountants update information via the Internet, as opposed to 50 per cent for individuals in other positions.

Figure 12:
Percentage distribution of taxes to which businesses are subjected by economic sector
(Percentage)

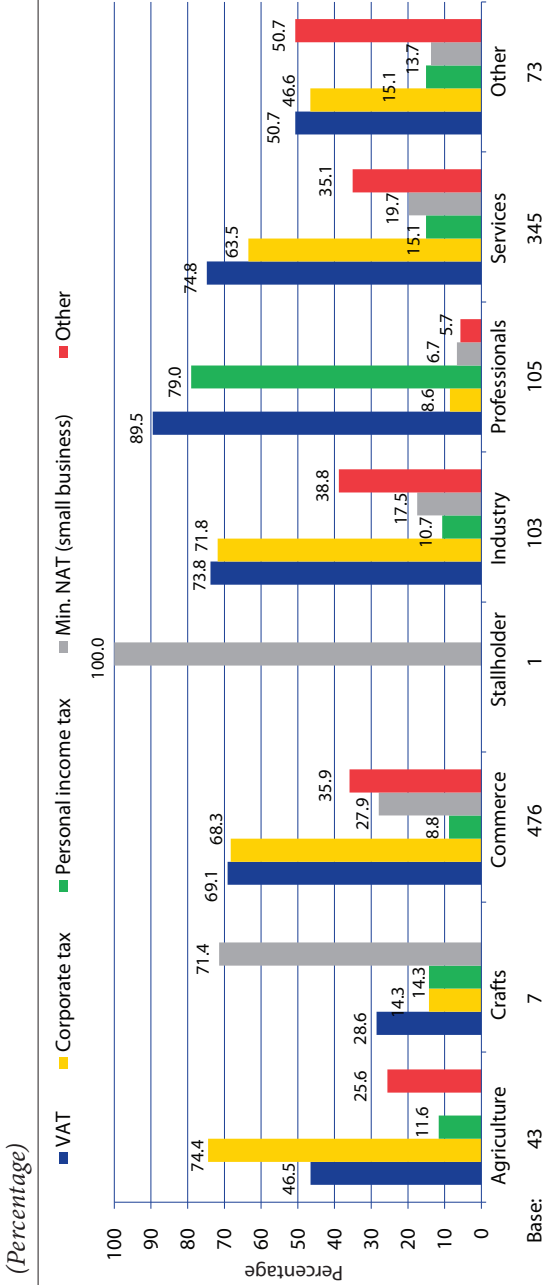


Table 20
Time to obtain information/learn about tax obligations by position in the company

Time per month to obtain information or learn about tax obligations	What is your position?						Total
	External tax adviser	Owner	Employee	Manager	Staff member responsible for tax matters		
Less than half an hour	31.75	34.42	28.30	36.11	24.11		31.59
30 minutes to 1 hour	11.64	17.39	11.32	2.78	14.29		13.52
1 hour	8.47	9.06	11.32	8.33	16.96		10.02
1 to 2 hours	17.46	16.67	13.21	13.89	19.64		17.02
2 to 3 hours	6.35	4.35	5.66	5.56	6.25		5.59
More than 3 hours	24.34	18.12	30.19	33.33	18.75		22.26
Total	100	100	100	100	100		100
Base	378	276	53	36	112		855

(Percentage)

Figure 13:
Use of Internet to comply with tax obligations (base: 1152)

(Percentage)

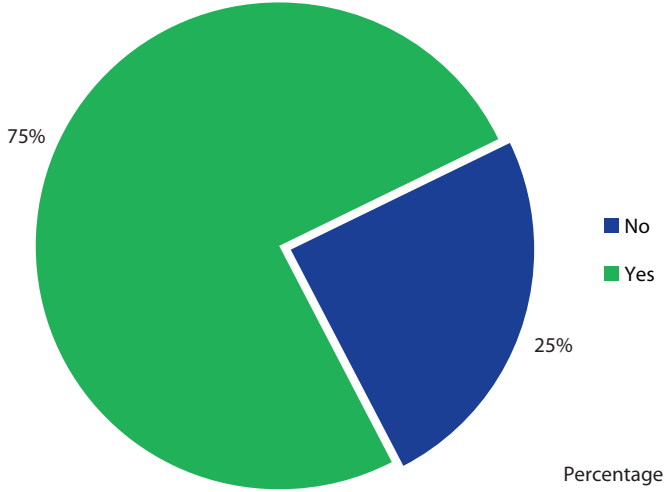


Figure 14:
Use of Internet to comply with tax obligations by occupational position

(Percentage)

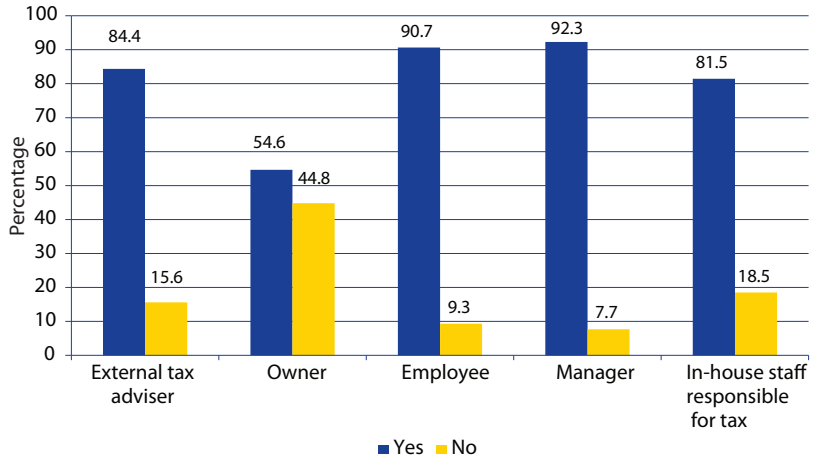


Figure 15:
Channel used to register or update information in tax registry

(Percentage)

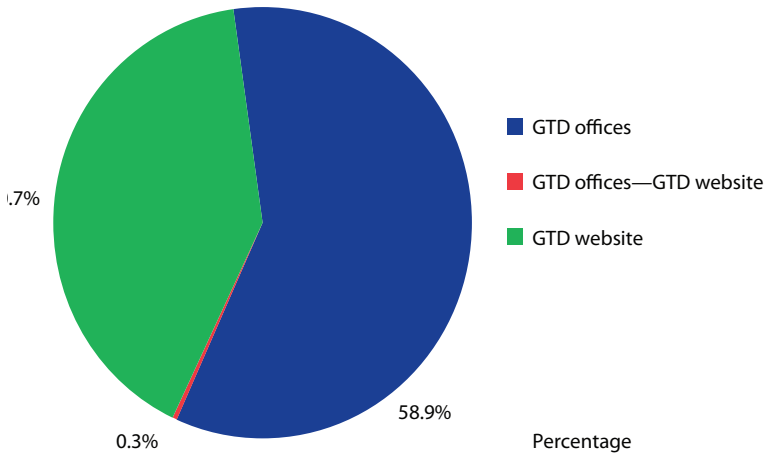
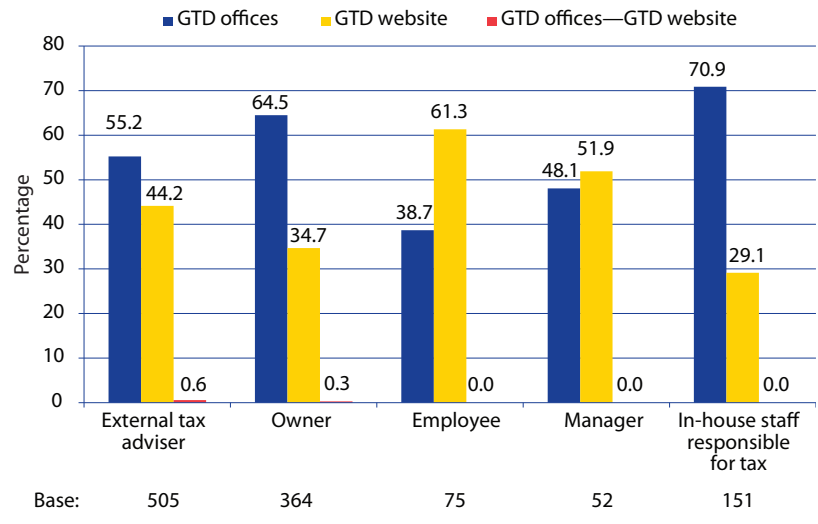


Figure 16:
Channel used for tax registration/updating by occupational position

(Percentage)



2.2.7 Tax returns and payment

The process of returns and payment includes filling out forms, submissions (in person, online, and so on) and finally payment (collection network, online, and so forth). This process is very important and the survey, therefore, included several questions that sought to provide a comprehensive understanding of its influence on tax compliance costs.

It should be noted that compliance with the Minimum VAT scheme does not strictly require using a form for returns as a payment coupon is used; the general regime does require a return form.

Table 21:
Time needed to submit tax return forms to the GTD by occupational position

(Percentage)

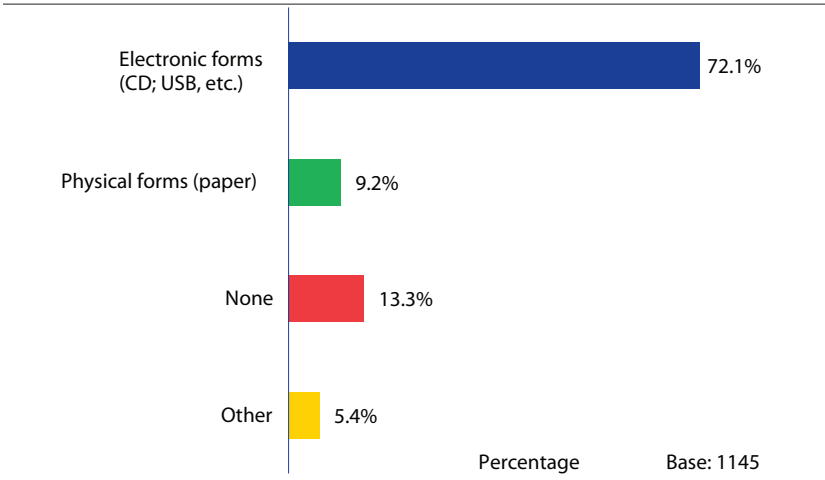
Hours per month needed to submit forms to the GTD	What is your position?					Total
	External tax adviser	Owner	Employee	Manager	Staff ^a	
Half an hour or less	20.31	29.73	8.47	22.86	8.74	20.67
30 minutes to 1 hour	9.00	6.31	15.25	5.71	7.77	8.42
1 hour	43.96	44.59	37.29	40.00	49.51	44.18
1 to 2 hours	16.97	11.26	18.64	8.57	16.50	15.10
2 to 3 hours	2.57	1.35	5.08	2.86	5.83	2.85
3 to 6 hours	3.34	4.05	6.78	11.43	4.85	4.33
More than 6 hours	3.86	2.70	8.47	8.57	6.80	4.46
Total	100	100	100	100	100	100
Base	389	222	59	35	103	808

^aStaff responsible for tax matters

Analysis of the information by the occupational position of the respondent revealed that accountants (external advisers and in-house staff responsible for tax matters) differed from respondents in other jobs: more than 50 per cent of the former took less than an hour to prepare the return form. The common denominator among accountants is that they are more effective in using the available tools.

Figure 17:
Methods used to complete tax return

(Percentage)



Some 72 per cent of taxpayers used electronic forms to submit returns; very few (9 per cent) opted to use a printed form. Some businesses reported not using any type of form; this is because of the Minimum VAT scheme, in which a return does not formally have to be submitted.

As regards tax payment mechanisms, there was a marked preference for cash (89 per cent) among businesses in the simplified regime. This is in contrast to businesses in the CEDE and non-CEDE schemes, where 35 per cent used cash, 51 per cent used cheques, and 14 per cent used a direct debit.

As to means of payment and occupational position, owners used cash to pay taxes 72 per cent of the time, while external advisers and in-house staff tended to use cheques.

Of those who used a bank account to pay their taxes, 13 per cent of those in the CEDE and non-CEDE schemes reported that such payment was made by the external tax adviser. A similar picture emerges if payment through banks relative to type of business registration is examined: among those registered as “legal entities”, some 13 per cent of such payments were made by an external tax adviser. This

substantial reliance on external advisers is a special characteristic of Uruguay.

Figure 18:
Means used to pay tax obligations by tax status and tax regime

(Percentage)

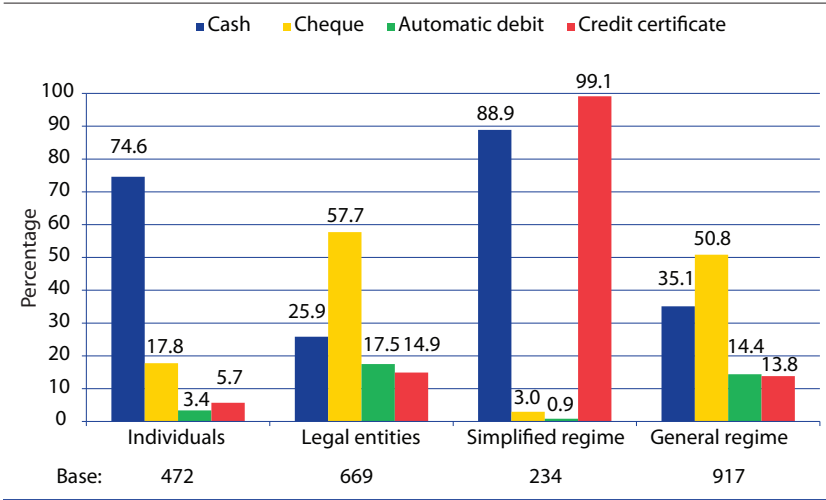


Figure 19:
Means used to pay tax obligations by position of respondent

(Percentage)

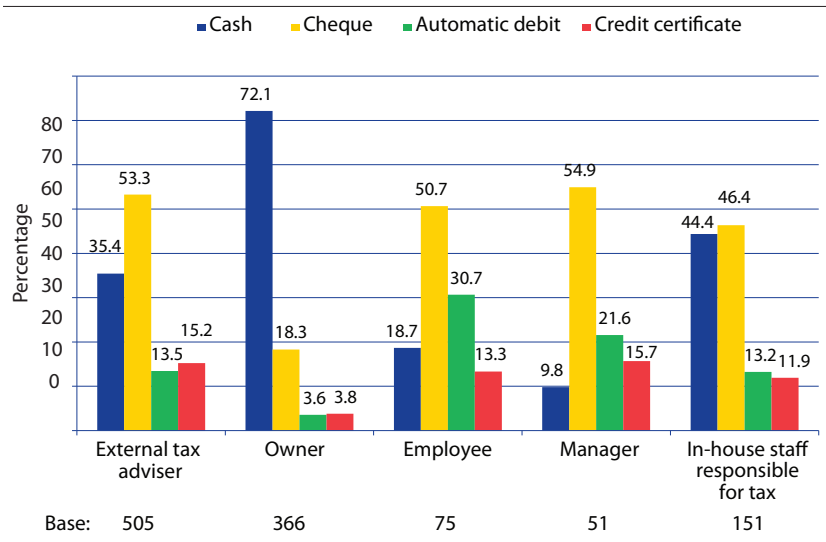


Figure 20:
Means used to pay tax obligations by type of business

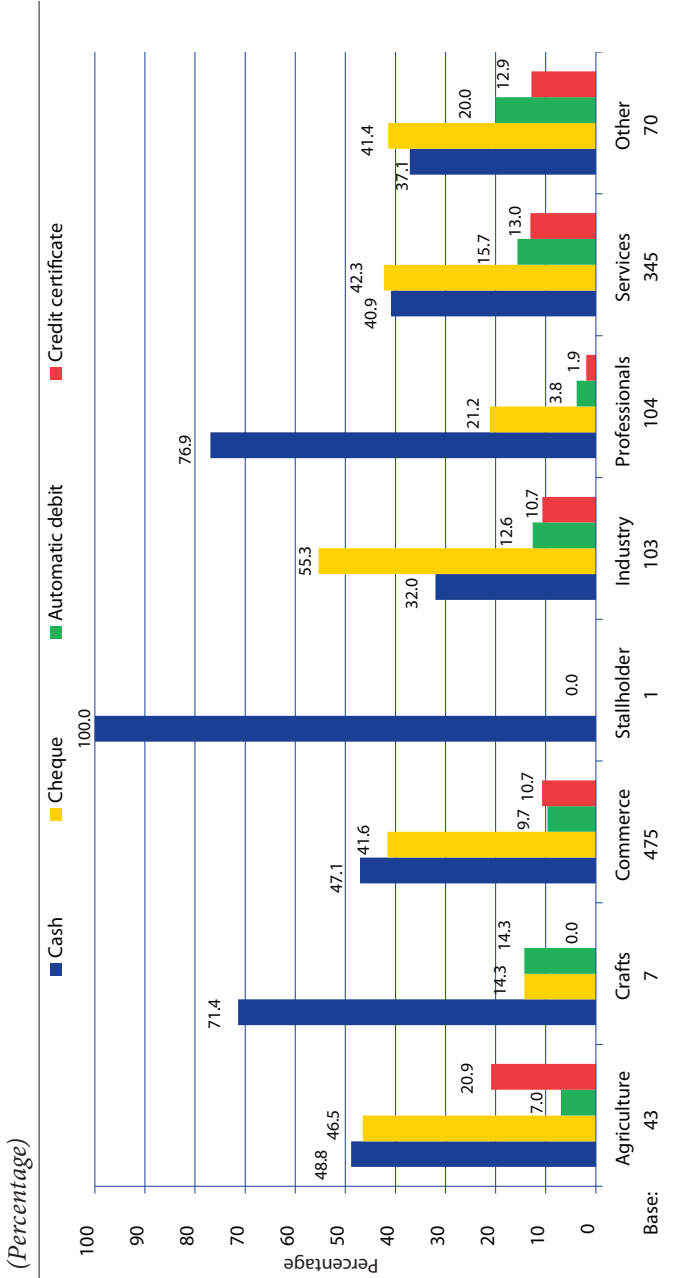
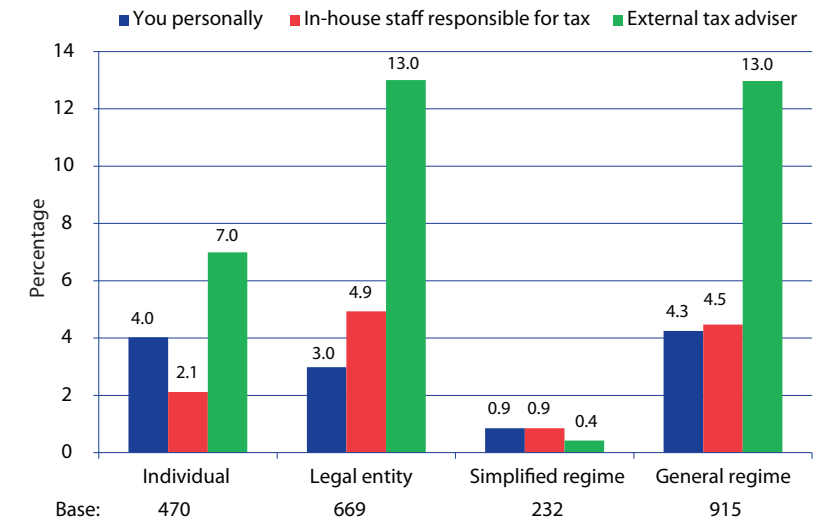


Figure 21:
Person responsible for paying taxes when paid through a bank account
by tax status and tax regime

(Percentage)



2.2.8 Tax control

Tax control geared to MSMEs is related to the need for information about a business, checking for discrepancies, and auditing of accounting records, among other things.

Almost 20 per cent of respondents reported having been contacted by the GTD for such purposes, revealing its broad coverage as regards the creation of risk. Among those businesses that were contacted, the most common reasons were formal control activities on the part of the GTD and checking discrepancies in returns and/or payments.

Figure 22:
Control activities: Response to question on form of control or requirement by the GTD

(Percentage)

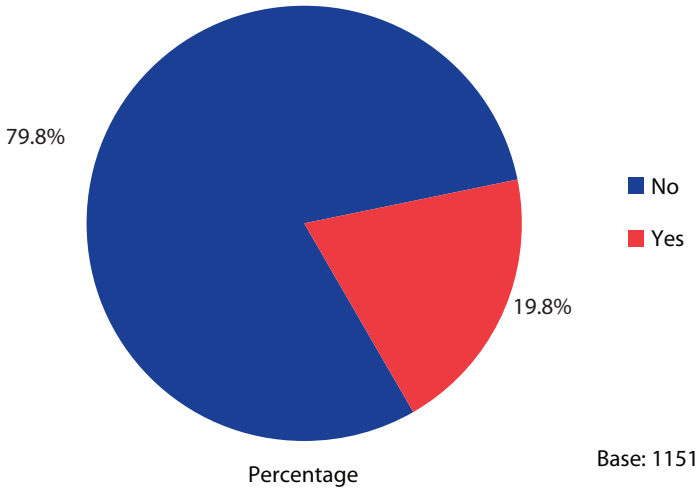
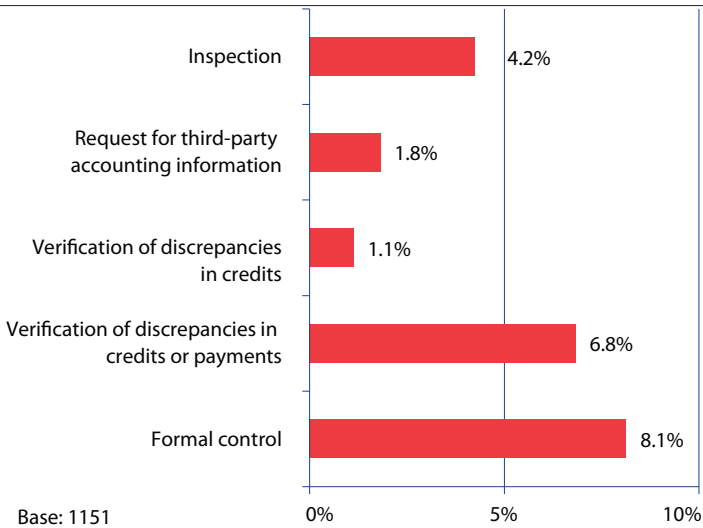


Figure 23:
Control activities: Type of action or requirement by the GTD

(Percentage)

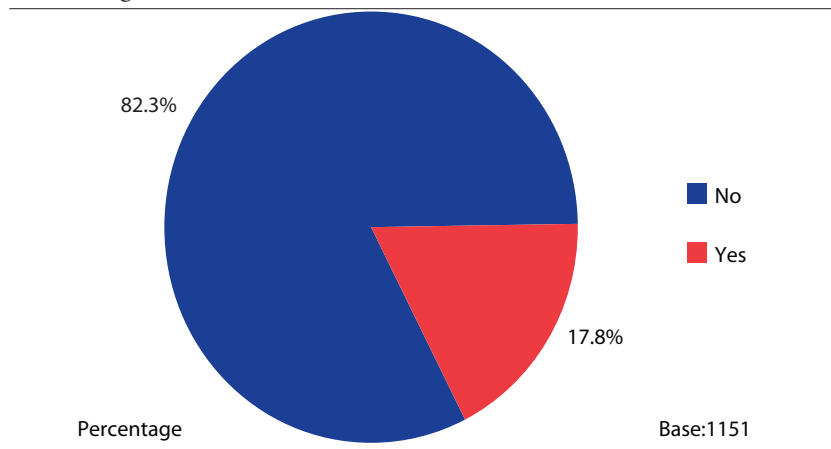


2.2.9 Refunds and claims

Only 18 per cent of respondents reported having requested a refund in the period under review. The refund process, because of the nature of the return of cash to the taxpayer, is very attractive to third-party intermediaries.

Figure 24:
Have you applied for a tax refund in the past 12 months?

(Percentage)



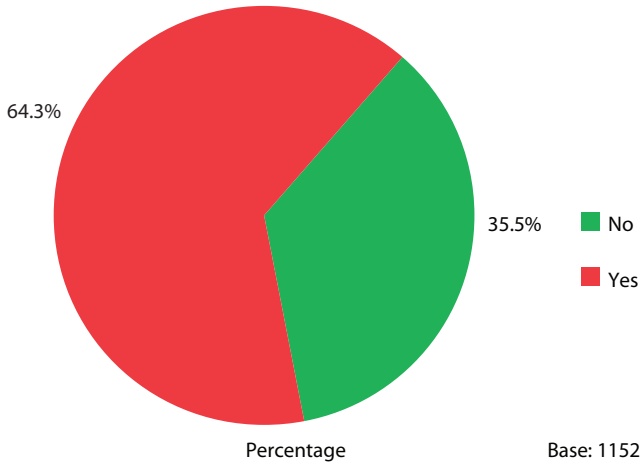
2.2.10 External costs and spending

Figure 25 shows that 64.3 per cent of respondents used an external adviser in the previous 12 months. The procedures that most required such spending were standard bureaucratic processes related to the GTD; registration and maintenance of accounting ledgers and billing information; and the submission and/or payment of taxes.

External costs and spending are an important component of tax compliance costs in Uruguayan businesses. The activities for which taxpayers most often required external support were for registering and maintaining accounting ledgers (20 per cent); standard bureaucratic procedures in the tax administration (19 per cent); updating and registering information (19 per cent); and submitting returns (18 per cent).

Figure 25:
Did you pay for external tax advisory services in the past 12 months?

(Percentage)



These findings indicate that it is quite common for MSMEs to use external advisers for bookkeeping support. Even though this is a relatively easy task, businesses prefer to entrust it to a third party.

It can be inferred that taxpayers incur a high opportunity cost to carry out this activity and therefore assign it to a third party, who is surely familiar with the procedures and has the necessary software, and can do the work for a reasonable fee.

A review of the responses did not provide enough data to indicate a precise cost for external advisers' fees. Nonetheless, given the large share of businesses that opted to use advisers, two alternative sources of approximating this cost have been used.

Following a review of both sources of information, for this measurement (Annex V to this country study), the values provided by the Uruguayan College of Accountants, Economists and Administrators (CCEAU), as shown in Table 22, were adopted.

As can be seen, the costs of external advice were especially high for micro and small enterprises.

Figure 26:
Procedures requiring a tax adviser

(Percentage)



Table 22:
Minimum fee (monthly and annual) for external advice by type of business

(United States dollars)

Business type	Minimum fee	Without/with accounting	Fee (Month)	Fee (Year)
Micro	1/2 hour/month		32.5	390
Small	1 hour/month	Without sufficient accounting	65.00	780.00
	2 hours/month	With sufficient accounting	130.00	1 560.00
Medium	2 hours/month	Without sufficient accounting	130.00	1 560.00
	3 hours/month	With sufficient accounting	195.00	2 340.00

2.3 Administrative costs: Methodological considerations

2.3.1 Organizational structure of the General Tax Directorate

The new organizational structure of the General Tax Directorate was approved in September 2011 and is shown in Annex VI to this country study. In line with that structure, the updated staff numbers for each division are as follows.

Table 23:
Number of officials by division

Division	Number of officials
Administration	164
Taxpayer assistance	189
General management	75
Control	256
Large taxpayers	63
Information technology	99
Interior departments	343
Collection and extensive controls	155
Technical-fiscal matters	69
Total	1 413

Source: Based on information from the Economic Advisory Office, General Tax Directorate, Ministry of Economy, Uruguay.

The current organizational structure of the GTD is typical of a tax administration geared to the processes of the taxpayer cycle. The largest number of officials is employed in the areas of control and interior—that is to say, working on tighter control and in the country’s interior departments.

A large number of officials are also in the areas of customer service and assistance, as well as in administra-

tion and in collection and extensive controls.

2.3.2 Steps to measure administrative tax costs

According to the process map drawn up by the GTD for 2012, the cost of tax administration is structured as follows.¹²

¹²Although the process map has not been made official in any document or through any institutional channel, the Advisory Office on Planning, Organization and Control (APOC) will soon define its mechanisms, which will then become known throughout the institution. Annex VII to this country study describes in detail each of the substantive and support processes according to the current process map.

Table 24:
Cost of tax administration

Substantive process/ sub-process	Cost	Costs of support processes				Total cost
		Support process 1	Support process 2	...	Support process n	
Process/sub-process 1	CPS_1	$CPA_{1,1}$	$CPA_{2,1}$...	$CPA_{n,1}$	$CPS_1 + \sum_i CPA_{i,1}$
Process/sub-process 2	CPS_2	$CPA_{1,2}$	$CPA_{2,2}$...	$CPA_{n,2}$	$CPS_2 + \sum_i CPA_{i,2}$
...
Process/sub-process m	CPS_m	$CPA_{1,m}$	$CPA_{2,m}$...	$CPA_{n,m}$	$CPS_m + \sum_i CPA_{i,m}$

Where:

CPS_j corresponds to the cost of substantive process/sub-process j .

CPA_j corresponds to the cost of the support process i assigned to substantive process/sub-process j .

It should be noted that some substantive processes/sub-processes are carried out by, or are the responsibility of, more than one organizational unit; a differentiation was carried out with the support of the Administration Division and the Advisory Office on Planning, Organization and Control (APOC) of the GTD.

The following steps were followed to carry out the measurement in line with the proposed methodology, and adapted for the GTD for 2012.¹³

Step 1: Identification of the substantive processes and sub-processes of the General Tax Directorate

The map of the substantive and support processes of the GTD was identified for 2012. Nonetheless, as cost measurement seeks to analyse existing processes/sub-processes in the institution and make decisions

¹³The measurement required working meetings with: the Advisory Office on Planning, Organization and Control (APOC); the Administration Division; the Interior Division; and the Revenue Unit of the Large Taxpayers Division.

related to that analysis, it was necessary to identify another level of support processes (very broadly defined).

This second level of detail of the substantive processes was defined on the basis of meetings with APOC and with each of the “process owners”, as the aim was to determine and distinguish the sub-processes in a way that made sense to the “process owner”.

Table 25 shows the substantive sub-processes identified as important in a second level.

Table 25:
Important substantive sub-processes identified

Substantive process	Sub-processes
A. Information and assistance	A.1. Face to face
	A.2. Call centre
	A.3. Other
B. Taxpayer management	B.1. Registration
	B.2. Receipt of tax returns
	B.3. Receipt of payments
	B.4. Refund certificates
	B.5. Granting of good standing certificates
	B.6. Foreign trade management
C. Collection management	C.1. Receipt, registration and deposit of revenues (including assets management)
	C.2. Collection control and accountability
	C.3. Agreements management
	C.4. Judicial collection management
D. Extensive controls	D.1. IRPF (personal income tax)
	D.2. CEDE
	D.3. Non-CEDE
E. Intensive controls	E.1. Large taxpayers
	E.2. CEDE + non-CEDE
F. Legal management	F.1. Large taxpayers
	F.2. Other
G. Tax legislation	No sub-process

It is clear that a different breakdown at the level of substantive sub-processes could be defined in line with the needs of each process owner; this will be part of a future APOC undertaking.

Table 26:
Link between substantive processes and organizational units

(Organizational units)

Process/ Sub-processes	Unit 1	Unit 2	Unit 3	Unit 4
Planning organization and management control	APOC	Internal Audit	Taxpayer services and assistance. Operational planning	Collection and Controls. Operational planning
Systems and procedures	APOC	Internal Audit	Taxpayer services and assistance. Operational planning	Collection and Controls. Operational planning
ITC management	ITC division			
Information management	Economic Advisory Office	Technical administrative support. Taxpayer services and assistance (1/2)	Technical administrative support. Collection and controls (1/2)	Technical administrative support. Administration (1/2)
Human resources management	Administration Division/Human Resources Department	Administration Division/ Accounting/ Payroll Department	Administration Division/ Accounting Department/ Credentials Section	Administration Division/ Training Department
Services, material and financial resources	Administration Division/ Procurement Division	Administration Division/ Accounting Department/ Spending and Assignments Section	Administration Division/ Accounting Department/ Taxpayer services and assistance	Technical administrative support
Communications and institutional image	General technical secretariat/Corporate Communications Section			

Table 26: (cont'd)

Process/ Sub-processes	Unit 5	Unit 6	Unit 7	Unit 8	Unit 9
Planning organization and management control	Control Division. Operational planning	Large Taxpayers Division. Operational planning	Interior Division. Technical administrative support		
Systems and procedures	Control Division. Operational planning	Large taxpayers Division. Operational planning	Interior Division. Technical administrative support		
ITC management					
Information management	Technical administrative support. Technical-Fiscal Division (1/2)	Technical administrative support. Technical-Fiscal Division	General technical secretariat		
Human resources management					
Services, material and financial resources	Technical administrative support	Technical administrative support	Technical administrative support	Technical administrative support	Administration Division. Service Control Department
Communications and institutional image					

Step 2: Determination of the number and value of officials in charge of each substantive process and sub-process (determination of installed capacity)

This step required associating the various organizational units with each identified process/sub-process for which they are responsible.

Some processes/sub-processes are clearly associated with a specific organizational unit. Others, however, are undertaken by several organizational units or by part of one. In these latter cases, efforts to make the association more precise required a meeting with the members of the organizational unit most closely linked to the process, in order to hear their views on the most appropriate division/association.

The organizational units that are responsible for several processes/sub-processes included the following:

- **The Interior Division** has staff working in the regional administrations in the interior. They are multifunctional: an official can work on assisting taxpayers, taxpayer management, extensive controls, and so on.
- **The Taxpayer Services and Assistance Division** has staff belonging to the Single Tax Registry Department, in charge of the sub-processes of registry, receipt of tax returns, and granting certificates of good standing and of foreign trade management.
- **The Technical-Fiscal Division** includes the Disputes Department, which is in charge of the process/sub-process of legal oversight of other taxpayers (those that are not large taxpayers) and the Norms Dissemination Section, which is responsible for the tax regulations process.

The determination of the number of officials responsible for each substantive process/sub-process served to assign the costs of support processes to each of those substantive areas through cost allocation. Nonetheless, because all staff members cannot be considered to be the same (given their varying degrees of specialization and skills), it was assumed that such allocation should be made in relation to their cost and not simply to the number of officials.

For that reason, the payroll cost for 2012 related to the officials previously identified in each process/sub-process of the GTD was quantified.

Step 3: Identification of GTD support processes

The support functions were also identified from the mapping process conducted by the GTD and presided over by APOC.

Step 4: Determination of the organizational units responsible for support processes

As in step 2, in some cases, establishing the association required making several assumptions, as shown in the formula below.

Step 5: Costing processes/sub-processes and support processes

The cost associated with each process/sub-process and each support process stemmed mainly from the cost of the human resources assigned to, and working in, each corresponding organizational unit, as well as from the cost of supplies and other services used by them.

The formula is as follows:

$$\text{Cost of process/sub-process and support process}_i \text{ (CPS}_i\text{)} = \text{Cost of human resources}_i + \text{Cost of supplies and services}_i$$

It can, therefore, be inferred that a significant share of the costs of each process/sub-process will be the cost of human resources.

The cost component for human resources was obtained by identifying in detail the total cost of each official in terms of his/her salary and other amounts they received during 2012. The amounts considered, apart from normal salaries, were the complementary annual salary and group targets, while paid vacation and bonuses were not included.

The cost component of supplies and services was obtained by identifying in detail the total cost of these items for each organizational unit involved in each substantive process/sub-process and support process.

The costing required that certain criteria be established and assumptions made; these were validated with the relevant offices (that is to say, APOC, Administration Division) and those organizational units that, by virtue of their work, required a more ad hoc determination of their spending.

Step 6: Allocation of support-process cost to each process/sub-process

This step involved the pro rata allocation of the costs of support processes in line with the criteria validated by the individual organizational units.

Step 7: Obtaining the cost of the GTD processes/sub-processes

2.3.3 Measuring administrative costs

Following the methodological considerations described in para. 2.3.2, the measurement of tax administration costs in the GTD for 2012 yielded the partial results in Table 27: payroll costs for the substantive processes.

Additionally, in line with the relationship between support processes and organizational units, a cost for those processes was able to be determined, as shown in Table 28.

It is clear that the support processes accounting for the bulk of the costs were information technology management; services, material and financial resources; and information management.

The measurement illustrated in Table 29 requires more detail, as provided in Table 30. That table shows the administrative cost disaggregated by substantive processes and sub-processes.

It should be noted that the biggest cost was in the area of intensive controls (32.5 per cent), specifically in the sub-process of controls on CEDE and non-CEDE taxpayers (27 per cent). Another process that involved significant costs was taxpayer management (19.4 per cent), wherein the most significant was the registry of taxpayers (13.5 per cent).

Other high-cost processes were information and assistance (11.1 per cent), especially face-to-face assistance (10 per cent), as well as

Table 27:
Substantive processes in the General Tax Directorate: 2012 remuneration costs

Substantive process	Substantive sub-processes	Number of officials	Remuneration cost (UP \$)	Percentage
A. Information and assistance	A.1. Face to face	182	119 699 324	11.0
	A.2. Call centre	33	1 901 640	0.2
	A.3. Other	58	8 476 143	0.8
Subtotal		273	130 077 107	11.9
B. Taxpayer management	B.1. Registry	193	157 962 982	14.5
	B.2. Receipt of tax returns	32	31 840 546	2.9
	B.3. Receipt of payments	2	1 368 248	0.1
	B.4. Refund certificates	12	9 307 235	0.9
	B.5. Good standing certificates	8	9 307 235	0.9
	B.6. Foreign trade management	11	15 178 955	1.4
Subtotal		258	225 140 873	20.6
C. Collection management	C.1. Receipt, registration and deposit of revenue (including assets management)	14	13 921 531	1.3
	C.2. Control and collection accountability	8	8 373 050	0.8
	C.3. Agreements management	13	9 462 490	0.9
	C.4. Judicial collection management	62	88 855 247	8.1
Subtotal		97	120 612 318	16.7
D. Extensive controls	D.1. Personal income tax	5	4 377 922	0.4
	D.2. CEDE	95	90 686 945	8.3
	D.3. Non-CEDE	95	87 324 971	8.0
Subtotal		195	182 389 838	16.7

E. Intensive controls	E.1. Large taxpayers	41	63 109 915	5.8
	E.2. CEDE + Non-CEDE	202	274 699 202	25.2
Subtotal		243	337 809 117	31.0
F. Legal management	F.1. Large taxpayers	3	5 779 853	0.5
	F.2. Other	40	65 176 378	6.0
Subtotal		43	70 956 231	6.5
G. Tax legislation	No sub-process	15	23 957 516	2.2
Total		1 124	1 090 942 999	100

Table 28:
Costs of support processes, GTD 2012 (UP \$)

(Organizational unit)

Process/Sub-processes	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	Unit 6	Unit 7	Unit 8	Unit 9	Total
Planning and management control	19 809 837	11 727 829	3 014 624	5 785 941	11 338 670	4 065 472	9 389 738			65 132 115
Systems and procedures	19 809 837	11 727 829	3 014 624	5 785 941	11 338 670	4 065 472	9 389 738			65 132 115
ITC management	127 027 630									127 027 630
Information management	19 644 842	1 519 595	6 881 473	21 878 848	20 860 623	10 789 293	6 712 687			88 287 363
Human resources	21 928 863	7 644 666	2 916 782	7 049 754						39 540 067
Services, material and financial resources	18 150 970	7 786 299	5 139 526	1 519 595	6 881 473	21 878 848	20 860 623	10 789 293	27 659 986	120 666 616
Communications and institutional image	6 712 687									6 712 687
Total										512 498 596

Table 29:
Tax administration costs, GTD 2012, by substantive process

Substantive process	UP \$ million	US \$ million	Percentage
A. Information and assistance	219.95	11.00	11.5
B. Taxpayer management	372.80	18.60	19.5
C. Collection management	205.57	10.30	10.8
D. Extensive controls	309.00	15.40	16.2
E. Intensive controls	619.25	31.00	32.5
F. Legal management	143.00	7.10	7.5
G. Tax legislation	38.00	1.90	2.0
Total	1 906.00	95.30	100.00

Table 30:
Tax administration costs, GTD 2012, by substantive process/sub-process

Substantive processes	Substantive sub-processes	UP \$ million	US \$ million	Percentage
A. Information and assistance	A.1. Face to face	195.30	9 780	10.0
	A.2. Call centre	3.01	0.15	0.2
	A.3. Other	13.43	0.67	0.7
Subtotal		218.95	10.95	11.1
B. Taxpayer management	B.1. Registry	258.18	12.91	13.5
	B.2. Receipt of tax returns	50.47	2.52	2.6
	B.3. Receipt of payments	6.75	0.34	0.4
	B.4. Refund certificates	15.03	0.75	0.8
	B.5. Good standing certificates	14.75	0.74	0.8
	B.6. Foreign trade management	24.06	1.20	1.3
Subtotal		372.83	18.64	19.4
C. Collection management	C.1. Receipt, registration and deposit of revenues (including assets management)	25.34	1.27	1.3

Table 30: (cont'd)

Substantive processes	Substantive sub-processes	UP \$ million	US \$ million	Percentage
	C.2. Collection control and accountability	13.27	0.66	0.7
	C.3. Agreements management	18.27	0.91	1.0
	C.4. Judicial collection management	144.11	7.21	7.6
Subtotal		205.58	10.28	10.5
D. Extensive controls	D.1. Personal income tax	6.94	0.35	0.4
	D.2. CEDE	151.48	7.57	7.9
	D.3. Non-CEDE	145.92	7.30	7.7
Subtotal		308.92	15.45	16.0
E. Intensive controls	E.1. Large taxpayers	104.86	5.24	5.5
	E.2. CEDE + non-CEDE	514.38	25.72	27.0
Subtotal		619.25	30.96	32.5
F. Legal management	F.1. Large taxpayers	14.00	0.70	0.7
	F.2. Other	128.96	6.45	6.8
Subtotal		142.96	7.15	7.5
G. Tax legislation	No sub-process	37.97	1.90	2.0
Total		1 906.45	95.32	100.0

extensive controls processes (CEDE and non-CEDE), and judicial collection management (7.6 per cent).

A prior step was needed to show administrative costs by tax: a criterion for allocating the costs of each process/sub-process to each tax had to be identified. To this end, the local team proposed the criteria in Table 31 for income tax-IASS. The cost remaining after applying the criteria in that table was assigned to the other taxes in line with their share of tax revenue.

Table 32 shows the administrative costs by tax and reveals that VAT entailed the highest cost (51 per cent), followed by the IRAE

(12 per cent) and income tax-IASS (11 per cent).

Finally, to make the measurement of Uruguay's tax

Table 31:

Criteria for cost-allocation of administration by tax

Process/sub-process	Percentage Income Tax-IASS
A. Information and assistance	
A.1. Face to face	60
A.2. Call centre	100
B. Taxpayer management	
B.4. Refund certificates	0
B.6. Foreign trade management	0
C. Collection management	
C.1. Receipt, registration and deposit of revenues	0
D. Extensive controls	
D.2. CEDE	0
D.3. Non-CEDE	0
E. Intensive controls	
E.1. Large taxpayers	0
E.2. CEDE + non-CEDE	0
F. Legal management	
F.1. Large taxpayers	0

Table 32:

Tax administration costs by process/sub-process and tax

(United States dollars)

Processes/Sub-processes	Income tax-IASS	VAT	IRAE	Others	Total
A. Information and assistance	6.10	2.72	0.63	1.15	10.95
A.1. Face to face	5.86	2.36	0.55	1.00	9.77
A.2. Call centre	0.15	-	-	-	0.15
A.3. Other	0.09	0.35	0.08	0.15	0.67
B. Taxpayer management	2.21	9.83	2.27	4.15	18.64
B.1. Registration	1.73	6.76	1.56	2.85	12.91
B.2. Receipt of tax returns	0.34	1.32	0.31	0.56	2.52
B.3. Receipt of payments	0.05	0.18	0.04	0.07	0.34

Table 32: (cont'd)

Processes/Sub-processes	Income tax-IASS	VAT	IRAE	Others	Total
B.4. Refund certificates	-	0.45	0.11	0.19	0.75
B.5. Certificates of good standing	0.10	0.39	0.09	0.16	0.74
B.6. Foreign trade management	-	0.73	0.17	0.31	1.20
C. Collection management	1.18	5.37	1.24	2.26	10.28
C.1. Receipt, registration and deposit of revenues	-	0.77	0.18	0.32	1.27
C.2. Collection control	0.09	0.35	0.08	0.15	0.66
C.3. Agreements management	0.12	0.48	0.11	0.20	0.91
C.4. Judicial collection management	0.97	3.78	0.87	1.59	7.21
D. Extensive controls	-	9.21	2.13	3.88	15.45
D.1. Income tax	-	0.21	0.05	0.09	0.35
D.2. CEDE	-	4.58	1.06	1.93	7.57
D.3. Non-CEDE	-	4.41	1.02	1.86	7.30
E. Intensive controls	-	18.73	4.33	7.90	30.96
E.1. Large taxpayers	-	3.17	0.73	1.34	5.24
E.2. CEDE + non-CEDE	-	15.56	3.59	6.56	25.72
F. Legal management	0.86	3.80	0.88	1.60	7.15
F.1. Large taxpayers	-	0.42	0.10	0.18	0.70
F.2. Other	0.86	3.38	0.78	1.43	6.45
G. Tax legislation	0.25	0.99	0.23	0.42	1.90
Total per tax	10.61	50.66	11.70	21.36	95.32

Table 33:
Tax administration costs

(Percentage GDP)

Services	0.022
Control	0.128
Enforced collection	0.020
Other	0.018
Total	0.188

administration costs comparable with measurements in other countries, a reference value such as the GDP is required.

Given that Uruguay's GDP in 2012 was about US \$51 billion (using an exchange rate of 20 pesos per United States dollar, GDP was US \$50.694 billion), the GTD's administrative costs stood at 0.188 per cent of GDP (Table 33). The cost of control amounted to 0.128 per cent of GDP. The other processes (services, collection, and so on) have an average share of about 0.019 per cent of GDP each.

2.4 Final considerations

2.4.1 Conclusions

- Implementation of the methodology for measuring tax transaction tax costs was the starting point for providing the General Tax Directorate with a tool to assess the costs incurred by the taxpayer and the tax administration.
- The use of external tax advisers is very common in businesses. This matter merits attention, not to limit the practice but to regard external advisers as intermediaries with taxpayers and thereby make the relationship more effective. If taxpayers outsource activities in a way that adds value to their business, this helps make the system more efficient. But if outsourcing is unduly costly, the processes should be checked and the procedures simplified.
- The simplified regime is a crucial means of reducing companies' compliance costs but it is striking how few firms are in it, hence the importance of efforts by the GTD to make constant improvements and promote the self-payment of taxes.
- Paying taxes by personal visits to a bank entails a high cost in hours per month. A joint programme with institutions in the banking system could help reduce time spent on payment.
- As regards administrative costs, the proposed methodology involved transforming/converting/reformulating components of the GTD's executed budget for fiscal year 2012 as they related to institutional processes.

- The GTD has a multi-annual institutional budget for the five-year period 2010 – 2014,¹⁴ and each year it manages an annual budget.¹⁵
- Institutional processes were obtained from the GTD’s Mapping of Substantive Processes and Support Processes, 2012. The latter was prepared by the Advisory Office on Planning, Organization and Control (APOC) and validated with the organization in an undertaking that provided a first version of the mapping.¹⁶
- The project’s next methodological proposal had to be adjusted to the particular circumstances of the GTD’s administrative and budgetary management in order for the results to be valid and useful to the organization.
- The basic adaptation was that the “cost driver” was not the number of officials engaged in each substantive process but rather the cost of those officials (their payroll cost), taking account of each person’s income during the year under analysis. This adaptation was made because, for the purposes of cost distribution, it was unrealistic to consider every official as “equal” in qualitative terms.
- Another adaptation divided each substantive process established in the GTD’s process mapping into additional sub-processes. The sub-processes were initially obtained by reviewing the GTD’s organizational and functional structure. This was validated with APOC and with each “process owner”, as the division of sub-processes should be useful to the organization.
- Given that the methodology considered reformulating the

¹⁴Established for the period of government.

¹⁵MEF Decree No. 166/005 of 30 May 2005 institutionalizes this strategic planning as a control management tool of the GTD, thereby establishing the need to set institutional targets over a multi-annual period that shall not exceed the budgetary period of government.

¹⁶The source of this first version of the GTD process map was an integrated information model, but APOC indicated that even before that effort was made the GTD had deemed it important to institute such a mapping. It has not been disseminated internally to date but APOC plans to do so.

institutional budget in terms of processes, some assumptions were made in the allocation of officials, spending and investments. This raised some difficulties, such as obtaining the total income of each GTD employee (para. 2.3.2, step 3) in 2012. As no detailed and cumulative record of such income was available, the data had to be “rebuilt”.

- The means chosen for the adaptation — identifying processes with APOC¹⁷ and validating the budget’s structure with the Administration Division¹⁸ and other organizational units (so as to refine the identification of processes and of the officials responsible for carrying out those processes) — followed a logical sequence that made the measurement’s results more reliable and useful.

2.4.2 Recommendations

- The simplified regime for VAT should allow taxpayers to submit quarterly statements online. This would help reduce tax compliance costs among that segment of taxpayers.
- The role of accountants in businesses, and their relationship with the tax administration, should be reviewed. The study provides evidence that surveys that were answered by an in-house accountant had quantitatively better and more effective outcomes in their compliance costs.
- Educating taxpayers is important, and there is a need for channels offering specialized technical advice so that taxpayers have an alternative to hiring external advisers.
- The GTD should continue to measure administrative costs, now completed as a pilot scheme for fiscal year 2012. Its Administration Division has expressed interest in continuing such measurement and in adapting certain procedures so that this undertaking will be faster in future.
- The GTD authorities should foster results-oriented process management. Management of the GTD has been

¹⁷APOC is in charge of the GTD’s planning and organization.

¹⁸The Administration Division is in charge of budget management.

results-oriented since 2005, according to the provisions of MEF Decree No. 166/005 of 30 May 2005.¹⁹ This approach should be based for the most part on analyses of the processes that are mainly involved in complying with the goals of what is termed the “Management Commitment”. Once the plans and budget are aligned (in a results-based fashion), it will be easier to ensure that the budget is linked to the processes/sub-processes of particular interest.

¹⁹This decree provides for an interesting results-based budget management mechanism. The mechanism requires registering a document called “Management Commitment” with the Ministry of Economics and Finance (MEF). This commitment will establish quantifiable goals that the GTD should attain over a multi-annual period that shall not exceed the budgetary period of government, along with the corresponding indicators. These goals will be related to increased tax compliance by improving the services provided to taxpayers and strengthening the fight against tax fraud and evasion. Additionally, the GTD will submit to the MEF a proposal for an annual operating plan and a results report that facilitates assessment of the implementation and fulfilment of the goals and targets set out in the commitment.

Annexes

Annex I. Technical Data

<p>TECHNICAL SPECIFICATIONS OF SAMPLE DESIGN COMPLIANCE COSTS SURVEY URUGUAY</p>
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SAMPLE DESIGN

1. Population and coverage:

The group under study comprised active taxpayers in the CEDE, non-CEDE and small business segments. Small businesses are defined in the VAT Act as those subject to the simple VAT and income tax regime. CEDE taxpayers, according to the legislation, are subject to more stringent control; they are next in importance to large taxpayers. Other taxpayers are non-CEDE — that is to say, not under CEDE control.

Large taxpayers, single-tax taxpayers and those subject to the IMEBA (small-scale payers engaged in agricultural activity) were excluded. There remained taxpayers subject to VAT and IRAE (general regime) in the agricultural sector, but because of their scale they were indistinguishable from any other non-agricultural taxpayer.

2. Sampling framework:

The sampling framework that determined the size of the sample consisted of active taxpayers (those that filed their tax returns for fiscal year 2012) in the Single Tax Register administered by the GTD.

3. Coverage:

Given the use of the online survey, all taxpayers throughout the country were covered, using the criterion of legal residence — that is to say, the address indicated by the taxpayer for GTD control rather than the tax residence where economic activities were carried out. Taxpayers were highly concentrated in Montevideo.

4. Unit of analysis:

This is the productive unit that is registered as an active taxpayer. Within the unit, the respondent may be the manager, accountant or staff member responsible for tax matters, or the owner.

The informal sector (unregistered) is not included.

5. Sample size:

To choose the sample size, a stratified sampling mechanism for the three regimes of interest was used: CEDE, non-CEDE and Minimum VAT.

The chosen sample size was 750 surveys, proportionally applied to CEDE, non-CEDE and Minimum VAT taxpayers.

6. Expansion factor:

The inverse probability of inclusion in the sample.



7. Standard sampling error:

A sampling error of 3.5 per cent at 95 per cent reliability was suggested.

8. Data collection strategy:

An online survey was used to collect the data, to be adapted by CIAT on the basis of the approved survey.

Annex II. Compliance costs survey

 UN-DESA	 COMISIÓN NACIONAL DE ESTADÍSTICA Y CENSOS	ESTUDIO DE OPINIÓN SOBRE COSTOS DE CUMPLIMIENTO TRIBUTARIO EN URUGUAY	Cuestionario No.	
			Fecha:	Hora inicio:
			Encuestador:	Hora fin:
<p>Buenos días / tardes. Mi nombre es _____ y represento a _____ Estamos realizando un estudio de los costos que generan el pagar impuestos. Le solicito me conceda unos minutos para hacerle unas pocas preguntas. Sus respuestas serán manejadas con total reserva y sólo servirán para fines estadísticos.</p>				
DATOS DE LOCALIZACIÓN DEL NEGOCIO				
A1. Tipo de Empresa: [1] Persona Jurídica [2] Persona Física [3] Persona Fisica sin actividad empresarial				
A2. ¿Qué tipo de contribuyente es usted? (marque la opción que corresponda): [1] CEDE [2] No CEDE				
Domicilio Constituido: A2. Ciudad [1] Ciudad 1 [2] Ciudad 2 [3] Ciudad 3 [4] Ciudad 4 Ciudad [5] Ciudad 5 [6] Ciudad 6 [7] Ciudad 7 [8] Ciudad 8				
A3. Departamento NÚMERO CONTACTOS PARA ENTREVISTA EFECTIVA 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30				
DATOS GENERALES				
A11. Quien Responde: [1] Gerente [2] Dueño [3] Responsable Tributario [5] Empleado [6] Asesor Tributario Externo (Agradezca y Cierre encuesta)				
A8. Género: [1] Hombre [2] Mujer A9. Edad:				
A10. Edad: ____ [1] 18 a 25 años [2] 26 a 39 años [3] 40 a 54 años [4] Más de 55 años				
A12. Lugar de nacimiento:(ciudad/país)				
A13. Nacionalidad: Local (1) Otra: (2)				
A14. ¿En qué año realizó su registro de contribuyente ante la DGI? (marcar sólo 1 opción)				
A16. ¿Cuántos LOCALES tiene su Negocio? (marcar sólo 1 opción) Un local [1] 2 o más Sucursales [2]				
A17. ¿Qué ALCANCE tiene su Negocio? (marque las que correspondan) 1 Departamento [1] Más de 1 Departamento [2] Internacional (Comercio Exterior) [3]				

A18. ¿Cuál es su actividad económica principal? Lea en orden cada respuesta y marque una opción			
[1] Agropecuario	[3] Industria	[5] Artesanos	[7] Feriante
[2] Comercio	[4] Servicios	[6] Profesionales	
[8] Otro (especifique):_____			
A19 ¿Cuál fue el nivel de ingresos anuales (Ventas en \$) obtenido por su negocio en el último ejercicio fiscal? (marcar sólo 1 opción)			
[1] Menos de \$100 mil	[4] De \$1 millón a \$2 millones		
[2] De \$100 mil a \$500 mil	[5] De \$2 millones a \$5 millones		
[3] De \$501 mil a \$1 millón	[6] Más de 5 Millones		
A20 ¿Cuántos empleados trabajaron, en promedio, en su negocio durante el año pasado? (marque solo una opción)			
[1] 1	[4] De 10 a 20 empleados		
[2] De 2 a 4 empleados	[5] De 20 a 50 empleados		
[3] De 5 a 10 empleados	[6] Más de 100 empleados		
INFORMACIÓN Y REGISTRO TRIBUTARIO			
B1. ¿A qué impuestos estuvo afecto su negocio durante al año anterior? (Marque los que apliquen)			
	Impuesto al Valor Agregado	1	
	Impuesto a la Renta Empresarial	3	
	Impuesto a la Renta Personas Físicas	4	
	IVA mínimo (Pequeña Empresa)	2	
	Otro	6	
B2. ¿Qué medio(s) emplea habitualmente para obtener información sobre sus obligaciones tributarias? (Marque las que correspondan)			
[1] Oficinas DGI	[2] Folletos impresos	[3] Página Web de la DGI	
[4] Call Center de la DGI	[5] Prensa	[6] Radio	
[7]] Familiar/Amistad/Conocido	[8] Asesor Tributario		
[9] Otros	[10] Ninguno		
B3. ¿En el caso de que utilice un especialista externo para actualizarse sobre aspectos tributarios, indique cual fue la razon principal para contratar sus servicios? (marque las que correspondan)			
	Primera razón	Segunda razón	Tercera razón
Exista poca información en las oficinas de la DGI	1	1	1
Exista poca información en la Web de la DGI	2	2	2
Exista poca información en el Call Center de la DGI	3	3	3
Los funcionarios de la DGI no explican debidamente las consultas	4	4	4
El asesor tributario brinda información con mayor detalle que la DGI	5	5	5

TAX TRANSACTION COSTS IN URUGUAY

Por falta de tiempo para ir a la DGI a solicitar información	6	6	6
Es más barato contratar un asesor tributario	7	7	7
NS/NC	8	8	8
Otro	9	9	9
B4. ¿Cuánto tiempo le toma, en un cierto año, informarse y/o capacitarse sobre las obligaciones tributarias de su negocio ?			
	Horas al año		
B5. ¿Utiliza internet para cumplir con sus obligaciones tributarias (declaración y/o pago) de su negocio?			
	[1] SI [2] NO		
B6. ¿Utiliza Redes de Cobranza para cumplir sus obligaciones tributarias?			
	[1] SI [2] NO		
B7. ¿Cuánto tiempo le tomó inscribirse ante la DGI (Registro Tributario) o actualizar su información tributaria en el año que pasó?			
	Horas		
B8. ¿Qué canal utiliza habitualmente para actualizar sus datos en el Registro ante la DGI?			
	[1] Oficinas de la DGI [2] Web de la DGI		
B9. ¿Qué medio utiliza para el registro contable de las operaciones de su negocio? (Marcar sólo 1 opción)			
	[1] Registros o Libros físicos (Papel) [2] Registros en Programas computarizados hechos a medida [3] Registros en Programas computarizados estándar [4] Ninguno		
B10. ¿Cuánto tiempo le toma cada MES únicamente el registro contable de las transacciones comerciales y financieras de su negocio?			
	Horas al Mes		
B11. ¿Cuánto es el valor estimado que gasta habitualmente al MES en Facturas, Formularios, libros contables, registro de libros contables, Programas Informáticos, legalizaciones, timbres profesionales u otros gastos relacionados al Registro Contable — Tributario de su negocio?			
	Valores en \$		
B12. Para operar, ¿su negocio requiere contar con el Certificado Único de Vigencia Anual?			
	[1] SI [2] NO		
	[3] ¿Por qué medio lo obtiene?		
	[1] Oficinas de la DGI [2] Web de la DGI		[3] En forma automática [4] Call Center

DECLARACIÓN Y PAGO DE IMPUESTOS									
C1. ¿Qué medios utiliza para el llenado de la Declaración Jurada de Impuestos? (marcar sólo 1 opción)									
[1] Formularios Físicos (Papel) [2] Formularios Electrónicos cargados en medio magnético (CD, USB, Diskette, etc) [3] Otro [4] Ninguno									
C2. ¿Cuántas horas le toma a Ud. el llenado del (los) formulario (s) cada vez que requiere presentar y con que frecuencia realiza esta declaración de impuestos?									
					Mensual	Bimestral	Trimestral	Semestrial	Anual
Horas por vez									
Impuesto al Valor Agregado	1				1	1	1	1	1
Impuesto a la Renta Empresarial	2				2	2	2	2	2
Impuesto a la Renta de Personal Físicas	3				3	3	3	3	3
Declaraciones Informativas (*)	4				4	4	4	4	4
Otras Declaraciones (especifique)	5				5	5	5	5	5
(*) Deberá agruparse el tiempo total por todas las Declaraciones Informativas que esté obligado a presentar									
C3. ¿Cuántas horas le toma al MES únicamente la presentación de (los) formulario(s) antes detallados ante la DGI?									
	Horas al Mes								
C4. ¿En dónde cumple con presentar sus Declaraciones Juradas y/o realizar el pago de sus impuestos?									
		Web de la DGI	Redes de Cobranza	Oficinas DGI	Otros				
Presentar las Declaraciones Juradas									
Realizar el pago de sus impuestos									
C5. ¿Qué medio(s) utiliza para realizar el pago de su obligación? (marcar las opciones que correspondan)									
[1] Efectivo [2] Cheque [3] Debito Automático del Banco [4] Certificado de Crédito [5] Cajero Automático									
C6. Si paga sus impuestos a través del sistema bancario, ¿Qué cuenta utiliza?									
[1] De negocio [2] Personal [3] Tercero									
C7. ¿Cuántas horas le toma al MES unicamente el pago de las obligaciones tributarias en la DGI?									
	Horas al Mes								

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CONTROL TRIBUTARIO		
D1. ¿Ha tenido alguna acción de control o requerimiento de la DGI durante los últimos 12 meses?		
[1] SI	[2] NO (Pase a la Pregunta E1)	
D2. ¿Qué tipo de acción o requerimiento particular ha tenido su negocio por parte de la DGI? (Marcar las opciones que apliquen)		
Control Formal		1
Verificación de diferencias en declaraciones o en pagos		2
Verificación de diferencias en créditos		3
Requerimiento de Información Contable de terceros		4
Actuación Inspectiva		5
Otro		6
D3. ¿Cuánto tiempo requirió para Ud. o para el personal responsable tributario de su negocio el cumplir con esta acción o requerimiento de la DGI?		
Horas		
D4. ¿Para cumplir tuvo que incurrir en algún costo externo adicional ? ¿Cuál fue el costo aproximado de esta asesoría externa?		
[1] SI	[2] NO	
[3] Valores en \$		
DEVOLUCIONES DE IMPUESTOS Y RECLAMACIONES		
E1. ¿Ha realizado solicitudes de devolución de impuestos durante los últimos 12 meses?		
[1] SI	[2] NO (Pase a la Pregunta E6)	
E2. ¿Quién habitualmente prepara y realiza la solicitud de devolución de impuestos en su negocio?		
[1] Ud. personalmente	[2] Responsable Tributario	
[3] Asesor Tributario Externo		
E3. ¿Si la solicitud la realizo Ud. o el responsable tributario del negocio, qué tiempo le tomó?		
Horas por vez		
E4. ¿Si la solicitud la realizó el asesor tributario externo, cual fue el costo aproximado por dicha labor?		
Valores en \$		
E5. ¿En caso que su solicitud fue positiva, que tiempo tomó la devolución después de realizada la solicitud?		
[1] menos de 1 mes	[2] 1 mes	[3] 2 a 3 meses
[4] 3 a 6 meses	[5] 6 meses a 1 año	[6] Más de 1 año
[7] NS-NC		
E6. ¿Ha presentado algún recurso a la DGI en los últimos 12 meses?		
[1] SI	[2] NO (Pase a la Pregunta F1)	

COUNTRY STUDY: URUGUAY

E7. ¿Quién habitualmente prepara y realiza el recurso a la DGI en su negocio?		
	[1] Ud. personalmente [2] Responsable Tributario [3] Asesor Tributario Externo	
E8. ¿Si el recurso lo realizó Ud. o el responsable tributario del negocio, que tiempo le tomó?		
	Horas por vez	
E9. ¿Si el recurso a la DGI lo realizó el asesor tributario externo, cual fue el costo aproximado por el trámite?		
	Valores en \$	
E10. ¿En caso de respuesta de su recurso, que tiempo tomó la respuesta después de realizada la consulta?		
	[1] 1 mes [2] 2 a 3 meses [3] 3 a 6 meses [4] 6 meses a 1 año [5] Más de 1 año [5] NS-NC	
COSTOS EXTERNOS		
F1. Durante los últimos 12 meses, su negocio tuvo que pagar por los servicios permanentes de algún asesor tributario externo (entiéndase a un experto que no trabaja en forma dependiente en el negocio pero se requiere su apoyo por su especialidad)?		
	[1] SI	[2] NO (Pase a la Pregunta F4)
F2. En el caso de respuesta SI, por favor ¿para que trámite/actividad habitualmente se requiere al asesor tributario externo? (marcar todos los que apliquen)		
	Actualización y Registro de Información en la DGI	1
	Registro y Mantenión de Libros Contables y Facturación	2
	Trámites Habituales en la DGI	3
	Declaración y/o Pago de Impuestos	4
	Capacitación en temas tributarios	5
	Apoyo en requerimientos de Control y Fiscalización de la DGI	6
	Apoyo en solicitudes y requerimientos a la DGI	7
	Otro especifique:	8
F3. ¿Cuál fue el costo aproximado MENSUAL que pagó a su asesor tributario externo por los servicios detallados en la pregunta anterior?		
	Valores en \$	
F4. Durante los últimos 12 meses, ¿Existieron otros costos de cumplimiento tributario que no hayan sido mencionados en la presente encuesta? ¿Cuál fue su costo aproximado? Excluyendo el monto del Impuesto, especifique el valor aproximado		
	[1] SI	[2] NO (fin de la encuesta) [3] Valores en \$
DATOS DEL ENTREVISTADOR		
	NOMBRE	
	NOMBRE DEL SUPERVISOR	

Annex III. Letter of invitation sent to selected taxpayers to comply with the tax compliance costs survey



GINWER S A
GUERRA JOSE MARIA 3827
12000 MONTEVIDEO, MONTEVIDEO

Montevideo, 6 de mayo de 2013

Estimado contribuyente:

Dentro de los objetivos estratégicos de la DGI para este período, está el de mejorar los servicios de asistencia al contribuyente.

En este sentido, se han impulsado en forma sistemática, diversas acciones que permiten realizar trámites vía Web y/o vía telefónica para contribuyentes de todo el país, como por ejemplo la solicitud del Certificado Único, las modificaciones de datos registrales, y consultas de pagos y retenciones. Próximamente se podrán realizar pagos y comunicaciones usando el celular y el correo electrónico.

El motivo principal de estas acciones es disminuir los costos en que incurren los contribuyentes para cumplir con sus obligaciones tributarias.

Es bajo esta preocupación que la DGI aceptó formar parte de un proyecto piloto impulsado conjuntamente por el Centro Interamericano de Administraciones Tributarias (CIAT) y la Organización de las Naciones Unidas, Departamento de Asuntos Económicos y Sociales de la Oficina para el Financiamiento del Desarrollo (FIDO/UN-DESA, por sus siglas en inglés).

Este proyecto tiene por objetivo desarrollar una metodología estándar para la medición de los costos que tienen las transacciones tributarias para el caso de las pequeñas y medianas empresas.

El concepto de costos de transacción tributario incluye a los costos administrativos (los costos directos en los que incurre la administración tributaria, es decir la DGI, para hacer cumplir las normas tributarias) y también los costos de cumplimiento en los que incurren los contribuyentes.

Para las pequeñas y medianas empresas, los costos de cumplimiento comprenden por ejemplo, la adquisición y/o contratación de recursos humanos, materiales e informáticos que permiten cumplir con la legislación vigente, y también el costo del tiempo insumido en obtener información, asistencia y orientación necesarias para el cumplimiento tributario.

Para tener conocimiento más exacto de estos costos y poder realizar mediciones sobre los mismos, lo más adecuado es realizar una consulta directamente a los contribuyentes. En este marco, la DGI ha diseñado una muestra aleatoria de contribuyentes, quienes son destinatarios de una encuesta que se responde **bajo total anonimato**.

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Usted se encuentra entre los contribuyentes seleccionados, motivo por el cual ha recibido esta comunicación, junto con el cuestionario de la mencionada encuesta. Estamos muy agradecidos del tiempo que pueda destinarle a analizar este cuestionario y del esfuerzo que realice para responderlo con la mayor precisión posible. Permítame recordarle que el anonimato está totalmente garantizado y que la selección se ha realizado exclusivamente en forma aleatoria. El éxito de este Proyecto radica en la exactitud en las respuestas que usted nos proporcione y así la DGI podrá diseñar, ahora y a futuro, sus estrategias de reducción de costos de cumplimiento basados en su medición real.

Ud tendrá dos opciones para darnos sus respuestas. A través del sitio en Internet <http://www.ciat.org/encuesta/index.php/survey/index/sid/762931/lang/es> donde encontrará las instrucciones de llenado, siendo un procedimiento sencillo que le insumirá unos pocos minutos.

Alternativamente, si lo prefiere, puede completar el cuestionario en papel, que está adjunto a esta carta, y depositarlo en la urna dispuesta en el subsuelo de la sede central de la DGI (Avda. Daniel Fernández Crespo 1534, Montevideo).

Nuestra sugerencia es que ingrese a la dirección de Internet indicada y advertirá que el llenado de la encuesta se presenta en entorno amigable, de fácil comprensión, permitiéndole completar la encuesta en etapas (para el caso que no disponga de toda la información requerida).

En el sitio web de la DGI (www.dgi.gub.uy), en la sección "destacados", encontrará un enlace a la dirección de la encuesta.

La misma estará disponible **hasta el viernes 31 de mayo inclusive**. Esta fecha establece también el plazo que Ud. dispone para depositar la encuesta en la urna, si así lo prefiere.

En caso de dudas o consultas sobre este cuestionario, puede comunicarse a la dirección de correo electrónico ctt@dgi.gub.uy

Una vez más, agradecemos su aporte a este proyecto, del cual estamos convencidos es en beneficio de todos los contribuyentes.

Cordiales saludos,



Cr. Pablo Ferreri
Director General de Rentas

Envelope used by the GTD to send the survey to selected taxpayers (Uruguayan mail)



Annex IV. Survey strategy and respondent profile

In view of the existing circumstances, and taking into consideration the various survey alternatives, an online survey was carried out. Arrangements were made to coordinate with CIAT so that the online version could be made available through the Center's website.

An online survey was preferred, given that many businesses of all sizes had Internet access, the cost of such a survey was low, and the GTD required the online submission of almost all tax returns and the completion of certain procedures.



The participation of the Uruguayan College of Accountants, Economists and Administrators (CCEAU) was important. CCEAU made comments on the preliminary version of the survey and approved its substance in general terms. It was important to have not only input from GTD officials on compliance costs, but also from those in the private sector who are most active in this field.

Scope of the implementation strategy

- The survey was sent to selected taxpayers, along with a letter signed by the Director of the GTD as the study's sponsoring institution under the aegis of the United Nations Department of Economic and Social Affairs and the Inter-American Center of Tax Administrations, which included the logo of both organizations.
- Following a proposal by the Director, the letter expressed the GTD's interest in fostering improvements beneficial to taxpayers, and indicated that the findings of the measurement exercise would affect that goal. The idea was to convince taxpayers to participate for their own benefit.

- The survey was designed to be anonymous.
The letters and surveys were sent by certified mail through Uruguayan mail. Certified mail requires delivery to, and acceptance by, an individual so authorized by a business.
Legal addresses were obtained from the Single Tax Register but the postal code information had to be located elsewhere because in some cases it was missing and it was needed to identify the address accurately.
- Taxpayers were given an email address (ctt@dgi.gub.uy) for queries. The Economic Advisory Office of the GTD was to coordinate taxpayers' queries with the support of the designated project consultant.
- Consideration was also given to using e-mail addresses to send reminders to taxpayers to encourage completion of the survey. Taxpayers' e-mail information in the Single Tax Register was used.
- The letter indicated the Uniform Resource Locator (URL) of the survey.
- Additionally, a news item about the survey was published in the "Noteworthy" ("*Destacados*") section of the GTD website, along with a hyperlink to it.
- Taxpayers also had the option of submitting the survey on paper and depositing it in a designated box located at GTD headquarters on Avenue Daniel Fernandez Crespo 1534, Montevideo.

Survey implementation

The survey finally conducted had the following characteristics:

- Given that a minimum sample of 250 respondents was required for each segment of interest (CEDE, non-CEDE and Minimum VAT), it was decided to triple that number in order to ensure the necessary number of responses.
- The letter and the survey were sent during the period 7 May-10 May 2013. The initial deadline for completing the survey was 31 May, but it was extended until 7 June.

- Around the third week of the survey, it was arranged that the GTD's call centre would telephone 500 of the taxpayers to whom the survey had been sent, with the aim of reminding them that they should complete the survey by the deadline.

As the local team had administrator-rights to access the online survey, it was able to monitor progress in completing the forms. A significant number of surveys were begun but not all were completed. For example, by close of business on 22 March the information loaded onto the survey system was as follows:

Summary of responses

Complete: 349

Incomplete: 509

Total: 858

- To encourage completion of online surveys, the letter of invitation and the survey were sent to a number of other taxpayers who were chosen because they had registered an e-mail address with the Single Tax Register. This effort sought to take advantage of the good response rate among those who had a registered e-mail address.
- It is important to underline that, in general, taxpayers responded carefully to e-mails that were sent to them, suggesting that their relationship with the GTD was at least adequate.
- It was discovered that a certain proportion of taxpayers used an external adviser, who eventually completed the survey on behalf of several clients.
- Throughout the implementation of the survey, some problems were identified and solved, often computer-related. The main ones were:
 - In the online survey, the thousands separator was the comma and the decimal separator the dot (.). This did not coincide with usage in Uruguay, where the comma is the decimal separator and the dot is the thousands separator.

- Solution: a criterion for data correction was agreed with the local team in line with the magnitude and inconsistency of very small amounts, doubtless the result of having converted the “thousands dot” into a “decimal point”.
- The physical absence of a pollster or interviewer made it impossible to avoid the inputting of inconsistent data, such as time (in hours) and cost (in UP \$).
- Solution: it was not possible to correct this because of the lack of a single criterion for identifying the cases involved.

Respondent profile

The most important descriptive data on the taxpayers who completed the survey and comprised the sample for the measurement of compliance costs are given below.

Table 34 shows that the sample of “Minimum VAT” taxpayers might be insufficiently representative, and thus the necessary adjustment would have to be made to obtain the final calculations. The contrary was the case with CEDE and non-CEDE taxpayers, where an adjustment was needed to avoid over-representation.

Table 34:
Final Sample

Regime	Complete surveys
Minimum VAT	234
CEDE	580
Non-CEDE	337
Total	1 151

Figure 27 shows that nearly half of those surveyed were registered in Montevideo, followed by Canelones (9 per cent) and Colonia (8 per cent).

Some 44 per cent of respondents identified themselves as external tax advisers and 32 per cent as the owner of the business.

Some 63 per cent of surveyed businesses had a presence in just one department, while 30 per cent had locations in more than one and 7 per cent were operating in international markets.

Figure 27:
Sample by department of origin (base: 1122)

(Percentage)

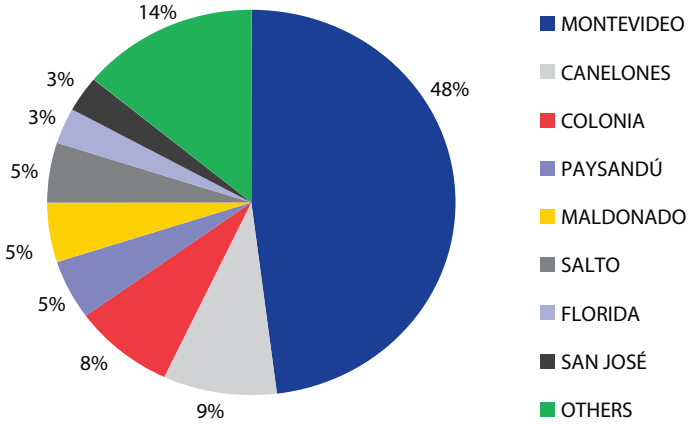


Figure 28:
Occupational position of survey respondents (base: 1149)

(Percentage)

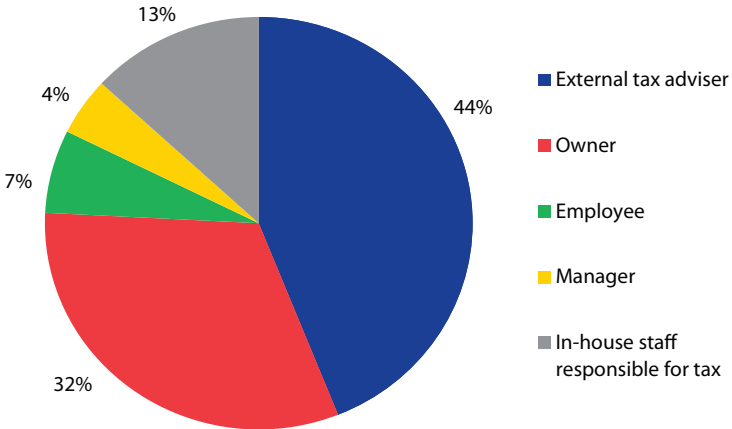


Figure 29:
Coverage of surveyed businesses (base: 1144)

(Percentage)

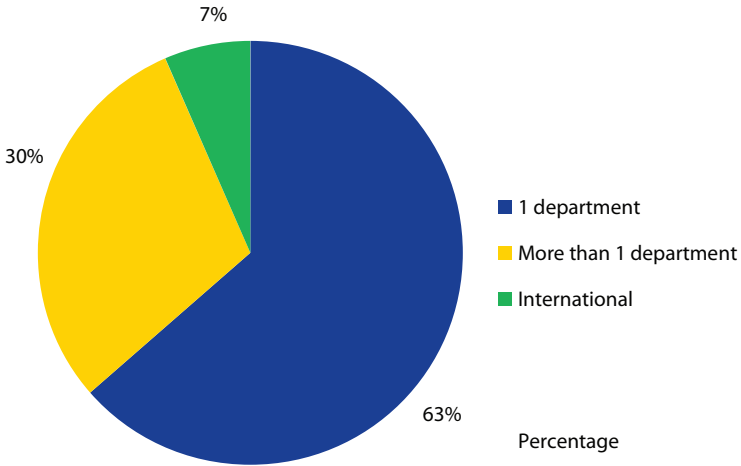
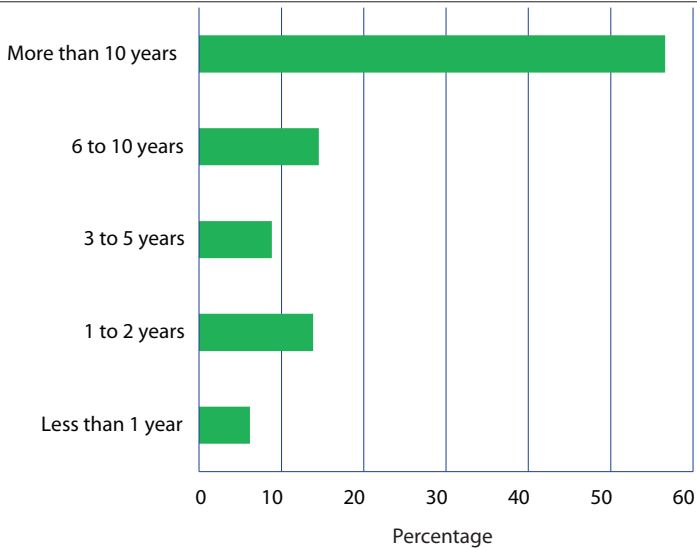


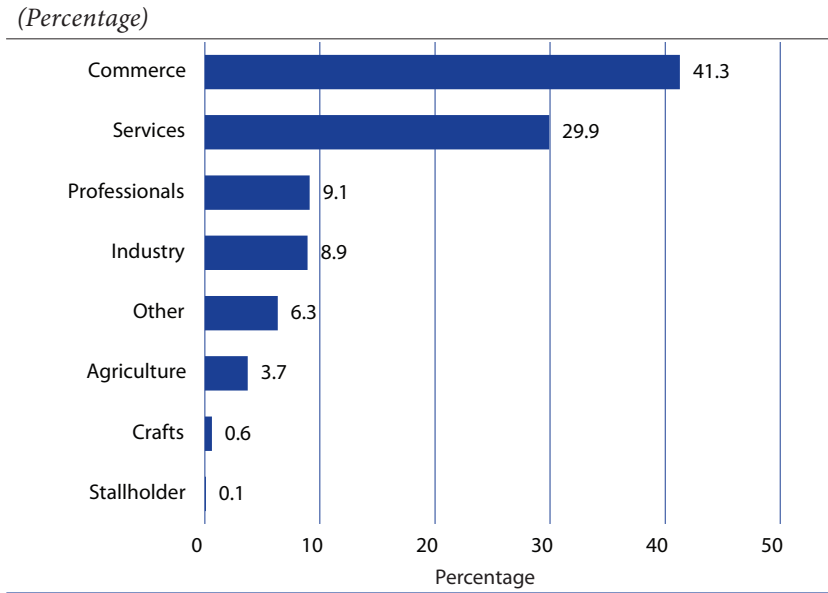
Figure 30:
Length of operation of surveyed businesses (base: 1053)

(Percentage)



About 56 per cent of companies reported having been in operation for more than 10 years, while 13 per cent, in each case, had been in operation for between six and ten years, and between one and two years, respectively.

Figure 31:
Economic sector of businesses surveyed (base: 1153)



Some 41 per cent of respondents said that they were in the commerce sector, followed by 30 per cent in services, 9 per cent in the professional sector, and another 9 per cent in industry.

About 40 per cent of the surveyed businesses said that they had only one worker, followed by 15 per cent with two to four workers and about 14 per cent with five to ten.

Figure 32:
Income level of surveyed companies (in UPs) (base: 1153)

(Percentage)

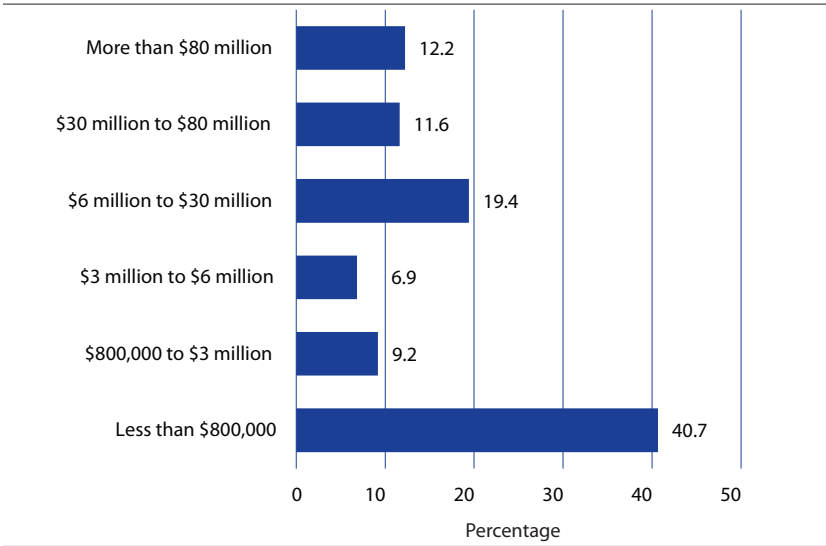


Figure 33:
Number of workers employed in 2012 (base: 1126)

(Percentage)

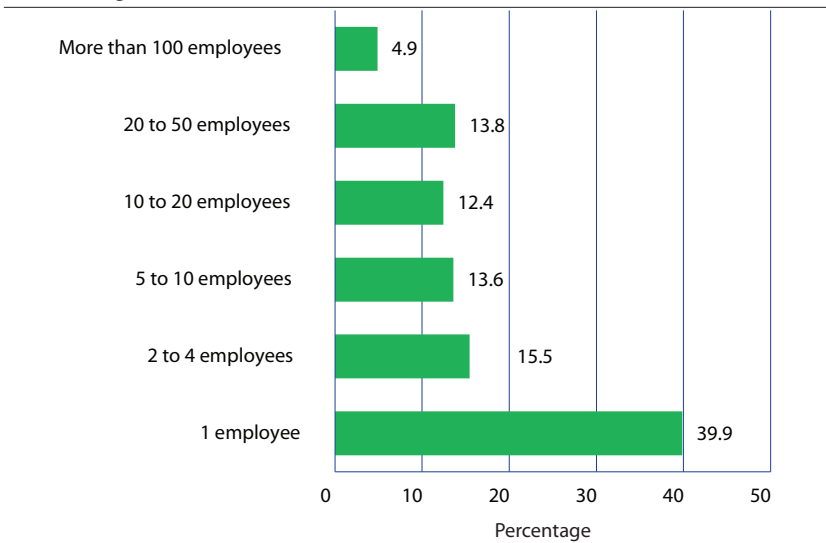


Figure 34:
Form of business registration (base: 1141)

(Percentage)

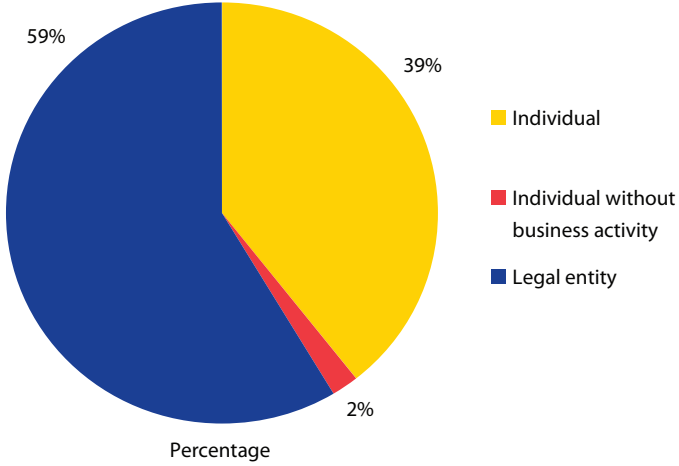
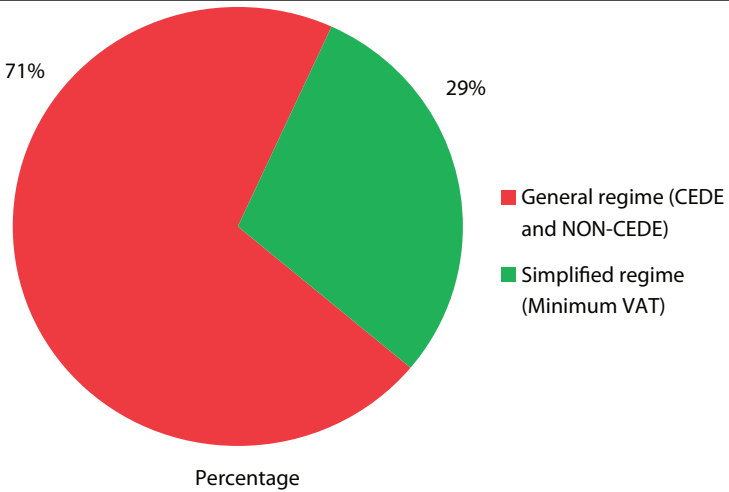


Figure 35:
Type of tax regime of the sample (base: 1151)

(Percentage)



Annex V. Determination of the cost of an external adviser for accounting

When a company is not a single-tax taxpayer and, because of its economic scale, is not subject to the small business tax, it is likely to need external accounting services.

This observation is based on the fact that the monthly payment of VAT itself implies knowledge on the part of the business owner. Additionally, all VAT-paying businesses also pay income and net worth taxes.

For this reason, two options were assessed to quantify the fees of external advisers for surveyed businesses: (i) the tariff table of the Uruguayan College of Accountants, Economists and Administrators (CCEAU); and (ii) the study “Informalidad en las Mipymes de Uruguay” (Dinapyme, 2009).

Option 1: CCEAU tariffs table²⁰

The tariff is approved by the CCEAU and is to be applied by those who have a qualification as a public accountant, economist, administrator or equivalent to practice their profession throughout the national territory. The tariff determines the minimum fee per hour. The minimum fee is UP \$1,300 per hour, equivalent to US \$65.

When the services of a professional are permanently contracted for general advice on accounting, tax, labour and/or social security matters, without a fixed number of working hours, monthly or periodic fees will be regulated on the basis of the combination of the following factors: matters for which the advice is contracted; time allotted to the task; amount of documentation to be processed; complexity of the business, institution or organization; applicable tax regime; need for support staff, general expenses and inputs for the task.

²⁰See <http://www.ccea.org.uy/sitio/arancel/arancel.pdf>.

Table 35:
Minimum fees according to CCEAU tariffs by type of business

Type of business	Minimum fee	Without/with accounting	Fee (US \$/month)
Microenterprise	1/2 hour/month		32.5
Small	1 hour/month	Without sufficient accounting	65.00
	2 hours/month	With sufficient accounting	130.00
Medium	2 hours/month	Without sufficient accounting	130.00
	3 hours/month	With sufficient accounting	195.00

Option 2: Data from the study “La Informalidad en las MIPYMES de Uruguay. Análisis de los Costos de la Formalidad” (Dinapyme, 2009)

This study surveyed public accountants in accountancy firms and found a wide range of criteria governing professional fees.

The study showed the difficulty facing a professional in accurately assessing the volume of work that a business will require. In addition to the anticipated amount of work and the complexity of the task, public accountants consider other matters when they quote their fees, such as the profitability of the business and fees charged by the previous professional (if applicable).

In any case, the workload is the most important factor for accountants in quoting fees to a business.

According to the information collected, calculation of the workload takes account of whether the business is small (Section E), whether the business has staff, and whether it is a CEDE taxpayer.²¹ If the taxpayer must keep full accounting records, and pay VAT, income tax and net worth tax, this will entail higher fees.

²¹Small or “Minimum VAT” businesses do not have to keep full accounting records, nor pay VAT, income tax and net worth tax. Hence, the accountancy firm only has to remind such businesses of the deadline each month and process the payment (which in most cases is effected by the business owner).

Among the businesses paying these taxes, those in the CEDE scheme must submit monthly returns with respect to the VAT payment and advance payments, and an annual return with the balance. CEDE taxpayers thus present a heavier workload to accountants, and the latter have to be more attentive to details of the accounting and fiscal management of these businesses.

Finally, another important variable affecting accountants' fees is whether a business has employees. The increased complexity involved in paying salaries, since the introduction of income tax, has caused accountancy firms to pay special attention to the number of employees in the business when setting their fees.

Table 36 shows the average fees (in United States dollars) by workload for accounting studies.

Table 36:
Fees of public accountants

(United States dollars)

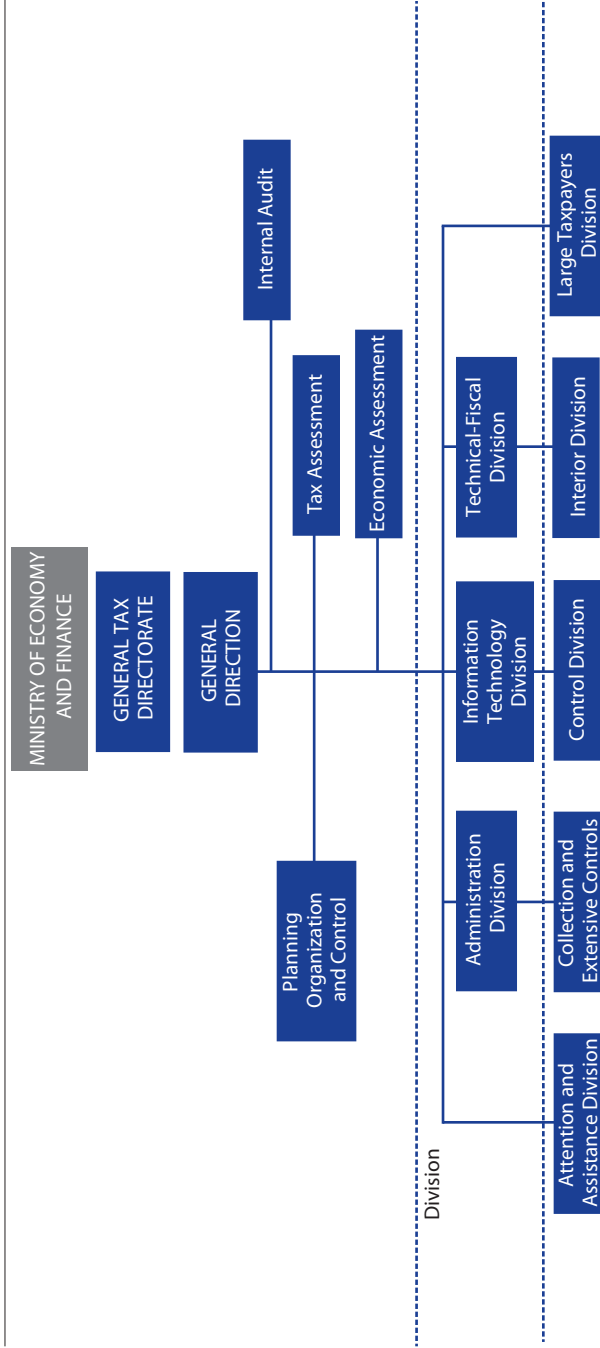
Type of business	Fees	
	Montevideo	Interior
Minimum VAT, no staff	30	25
Minimum VAT, with staff	50	35
Non-CEDE, no staff	130	100
Non-CEDE, with staff	170	120
CEDE	260	200

Source: Dinapyme (2009).

It should be noted that there is a significant variation in the fees charged by external advisers depending on the complexity of each type of taxpayer's tax obligations. The more complex the tax system and the fewer the alternatives for simplification, the more the taxpayer will have to pay an external adviser.

Annex VI. Organizational chart

Figure 36:
Simplified organizational structure of the General Tax Directorate, Ministry of Economy and Finance, Uruguay
(Percentage)



Annex VII. Substantive and support processes in the General Tax Directorate

Measuring administrative costs required gathering information on the institutional processes and organizational structure of the GTD, as well as on the number of officials in all organizational units. This information served to adapt the proposed methodology to the institutional circumstances of the GTD.

That endeavour was supported by the Advisory Office on Planning, Organization and Control (APOC) and various departments of the GTD's Administration Division.

The GTD identified the activities that helped produce value — optimizing the overall performance of processes rather than performance within a function.

Substantive processes

These are the organization's key processes and are directly linked to the GTD's mission.²² Each process and its goal are described briefly below.

Information and assistance	To provide information and assistance regarding the tax obligations managed by the GTD, promoting knowledge of the tax system and facilitating voluntary compliance by providing a service that will strengthen the image of the institution and help bring it closer to the public.
Taxpayer management	To manage the institution's relationship with taxpayers, allowing normal compliance with their obligations, ensuring that their information is kept up to date and issuing the corresponding documentation.

²²To obtain the revenue from State resources arising from the internal tax system through the effective application of the system's underlying regulations, promoting voluntary compliance by taxpayers, in a framework of respect for taxpayers' rights, and acting with integrity, efficiency and professionalism in order to provide a good service to citizens.

<p>Collection management</p>	<p>To deal with activities relating to the admittance, registration and control of revenue, both voluntary and enforced, as well as managing and carrying out actions to recover tax debts, including the granting of payment facilities.</p>
<p>Extensive controls</p>	<p>To exercise widespread control of taxpayer compliance as regards submitting returns, credit applications and payments, as well as ensuring consistency of the available data.</p>
<p>Intensive controls</p>	<p>To investigate and verify the proper tax behaviour of taxpayers in line with their economic circumstances, and proceed to assess and liquidate tax debts.</p>
<p>Legal management</p>	<p>To provide a legal basis for administrative, judicial and jurisdictional actions and ensure compliance with rules that establish rights and obligations both for taxpayers and the administration, representing the organization as claimant or counter-claimant in the various bodies in which such actions are pursued.</p>
<p>Tax legislation</p>	<p>To develop general or particular tax rules for the proper administration of the taxes collected by the GTD, foster the changes needed to improve existing legislation, and participate in the drafting of laws, decrees or international agreements on tax matters.</p>

The description of each process involves its goal, scope and specific activities. To measure administrative costs, each substantive process must be associated with one or several organizational units.

Support processes

The following provide support to the substantive processes:

Management planning and control	To define the strategic, specific goals and guidelines to follow in a multi-annual period and develop annual action plans aligned with the foregoing, ensuring that they are effectively carried out, identifying risks and deviations, and taking corrective measures if necessary to enable the administration to fulfil its mission. To that end, the control also covers verifying that the officials of the organization comply with established rules and procedures.
Organization, systems and procedures	To develop the organizational structure, systems, processes and procedures needed to carry out activities effectively and efficiently.
Information technology management	To define and implement the technology strategy and manage everything related to information technology, promoting the rational use of new technologies and the adoption of best practices in the field, and ensuring that services are available such that the GTD can fulfil its roles in accordance with the organization's strategic guidelines and the regulations in force in the field of e-government.
Human resources management	To develop a highly professional and motivated staff in sufficient numbers and of appropriate quality to allow the organization to meet its goals efficiently and effectively.
Management of services, and material and financial resources	To manage the financial and material resources and services needed to meet organizational goals efficiently and effectively.

**Information
management**

To identify, create, organize and make available to internal or external users the necessary information to enable the development of organizational processes.

**Communications
and institutional
image**

To manage organizational communications and inter-institutional relations using techniques and media best suited for the various external and internal audiences, so as to transmit and strengthen the administration's image in a way that is aligned to its vision and mission, and to promote tax awareness.

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Abbreviations

APOC	Advisory Office on Planning, Organization and Control (GTD)
BPS	Social Security Bank
CCEAU	Uruguayan College of Accountants, Economists and Administrators
CEDE	Special Control of Enterprises
CIAT	Inter-American Center of Tax Administrations
Dinapyme	National Directorate of Crafts, Small and Medium-Sized Enterprises
GDP	Gross domestic product
GTD	General Tax Directorate
IASS	Social Security Assistance Tax
IMABA	Tax on Banking Assets
IMEBA	Tax on the Transfer of Agricultural Goods
IMESI	Specific Internal Tax
IRAE	Tax on Income from Economic Activities
IRIC	Tax on Income from Industry and Trade
IRNR	Tax on Non-Residents' Income
IRPF	Personal Income Tax
ITP	Property Transfer Tax
VAT	Value Added Tax
MIEM	Ministry of Industry, Energy and Mining
MSME	Micro, small and medium enterprises

Part Four

Country Studies: Costa Rica and Uruguay

Summary

Chapter I

Tax transaction costs: Country studies of Costa Rica and Uruguay

1.1 Methodological and general aspects of the country studies

1.1.1 Costa Rica and Uruguay were the countries of the pilot study. They were chosen from among several Latin American countries and assessed in line with the criteria established in the document that sets out the project's conceptual framework. These two countries were interested in participating in the pilot phase, and provided various resources that helped take the project to its successful conclusion.

Table 1 offers some key indicators on the pilot countries.

Table 1:
General data, 2012

	Costa Rica	Uruguay
Population	4 652 459	3 286 314
GDP growth (real)	5.1 per cent	3.8 per cent
Tax pressure (excluding social security)	13.5 per cent	18.75 per cent
Name of the tax administration	Directorate General for Taxation (DGT)	General Tax Directorate (GTD)
Percentage of MSMEs	97.8 per cent	97 per cent
Simplified regime	Yes, simplified VAT and income tax	Yes, minimum VAT, simplified regime, IMEBA
Total number of officials in the tax administration	971	1 413
Currency	Colón US \$1 = 508.20 colones, December 2012	Peso US \$1 = 19.7 pesos, December 2012
Inflation	4.6 per cent	9.1 per cent

Source: Costa Rica and Uruguay Country Studies. Parts Two and Three of the present report.

1.1.2 The methodology for measuring tax transaction costs in small and medium enterprises set out in this study defines those transaction costs as the sum of the costs of managing the tax systems (administrative costs) and the costs of having to comply with the system (tax compliance costs).

Tax transaction costs (TTC) therefore consist of:

$$\text{TTC} = \text{CC} + \text{AC}$$

Where:

TTC = tax transaction costs

CC = compliance costs to the taxpayer

AC = administrative costs of the tax administration.

1.1.3 The estimate of TTCs focuses mainly on micro, small and medium enterprises (MSMEs) that pay tax, given their potential role in Latin American economies as a source of employment and economic development. Economic actors in general and taxpayers in particular can be classified into four categories according to their economic size:

- (a) Micro
- (b) Small
- (c) Medium
- (d) Large.

For the purposes of applying the methodology proposed in this project, the reference point is the definition of MSMEs as an enterprise in the productive sense. Hence, a business is defined as any entity engaged in an economic activity regardless of its legal standing.

For Uruguay, the classification criterion was that established in Decree 504/07 of 20 December 2007 by the National Directorate of Crafts, Small and Medium Enterprises, Ministry of Industry, Energy and Mining (MIEM), which is responsible for policies to promote MSMEs.

Table 2 shows the criteria used to classify businesses in Uruguay.

Table 2:
Uruguay: Definition of micro, small and medium enterprises^a

	Annual sales	Direct employees
Microenterprise	Up to US \$260 000	Up to 4 employees
Small enterprise	US \$260 000 to US \$1.3 million	5 to 19 employees
Medium enterprise	US \$1.3 million to US \$9.8 million	20 to 100 employees

Source: Uruguay Country Study (see Part Three of the present report)

^aValues estimated using “indexed units” on 31 December 2012.

In the Costa Rica country study, the criterion was that proposed by the United Nations-DESA and CIAT, as shown in Table 3.

Table 3:
Costa Rica: Definition of micro, small and medium enterprises

	Annual sales	Direct employees
Microenterprise	Up to US \$100 000	Up to 10 employees
Small enterprise	US \$100 000 to US \$2 million	10 to 50 employees
Medium enterprise	US \$2 million to US \$5 million	50 to 200 employees

Source: Costa Rica Country Study (see Part Two of the present report).

1.1.4 To measure administrative costs, the proposed methodology uses the cost allocation method based on the time assigned to the main functions of the tax administration’s value chain. This called for internal information from the Directorate General of Taxation (DGT) and the General Tax Directorate (GTD).

To measure compliance costs, the methodology involves obtaining primary-source data from taxpayers by means of surveys. On that basis, estimates were made of the time that taxpayers needed to comply with their tax obligations, as well as the additional internal and external costs that taxpayers might incur in dealing with their tax affairs.

1.1.5 Studies based on surveys of taxpayers or citizens are not normally used in tax administrations. Nonetheless, at the DGT in Costa Rica and the GTD in Uruguay there were previous studies on taxpayer assistance. Moreover, in other institutions it was possible to review studies of MSMEs that used surveys, and that served to formulate public policies geared to helping such businesses boost their competitiveness.

The interviews conducted during the project indicated that the methodology for measuring the TTCs of MSMEs in Costa Rica and Uruguay was a useful and innovative tool for decision-making on the part of the tax authorities, as there were no previous studies on the subject.

The DGT and the GTD were also interested in having a tool that could be used to assess the impact of the simplified value added tax (VAT) regimes, which were designed to facilitate tax compliance among micro and small enterprises.

1.1.6 According to a CIAT study,¹ by 2012 some 14 Latin American countries had introduced special tax regimes for small taxpayers, either single-tax systems or simplified regimes applied solely to VAT or income tax.

In Costa Rica, the simplified regime was introduced in 1996 and is applicable to sales and income taxes. It covers specific types of economic activities such as bars, pubs, taverns and similar establishments; photographic studios; handmade footwear; furniture and accessories; earthenware, crockery, ceramics and porcelain; structural metal products; florists; bakeries; restaurants, cafés, soda bars and other establishments that sell food and/or beverages: small-scale fisher-folk; retail merchants; and taxis.

The simplified tax is declared and paid quarterly, and the tax is calculated on the basis of factors applied to total taxable purchases. Access to the system is voluntary but there are several conditions such as an annual limit on purchases, number of employees and volume of assets. Taxpayers in this regime are exempt from issuing invoices and are obliged only to keep a purchases ledger and file an additional quarterly return with details of purchases.

Uruguay has a simplified regime called “Minimum VAT” for taxpayers whose minimum income does not exceed 305,000 indexed units (IUs) per month (US \$5,547 in June 2013). These taxpayers must pay UP \$2,110 (Uruguayan pesos; US \$100 in June 2013) a month

¹Pecho, Miguel (2012). Regímenes Simplificados de Tributación para pequeños contribuyentes en América Latina, Documento de Trabajo 2. Panama City: CIAT.

in minimum VAT. They are exempt from the Tax on Income from Economic Activity (IRAE) and the net worth tax, but they must pay the social security contribution.

It is established that payments may be gradual — that is to say, in their first year in the regime businesses pay only 25 per cent of the monthly quota; 50 per cent in the second year; and 100 per cent of the minimum VAT in the third year.

Uruguay has two other simplified regimes: the single tax and the MIDES² single social contribution. Both regimes are designed for one-person microenterprises or businesses with a maximum of two partners and an asset limit of 305,000 IU.³ The difference between the two systems is the tax base: the MIDES is centred more on social security contributions while the single tax is focused on the retail trade in public thoroughfares and includes all national taxes, but its calculation depends on the rates paid to the Social Security Bank (*Banco de Previsión Social*, BPS), excluding the mutual quota.

1.1.7 As regards the procedures for estimating costs, especially compliance costs, the survey proposed in the methodology for this project (United Nations-DESA and CIAT) was used, although it was adapted to the economic and tax conditions in each country. The survey was reviewed by officials of the tax administrations and other institutions, such as the Uruguayan College of Accountants, Economists and Administrators (CCEAU) for Uruguay.

Technical specifications were drawn up for the implementation of the survey in each country. This included the target population, the unit of analysis, the sampling framework, coverage, the necessary expansion factor, and the data collection strategy. In both cases, the target population comprised economic units defined as MSMEs according to their sales ranges and/or number of employees. The sampling framework consisted of information from active taxpayers registered in the DGT and GTD. The sample size was calculated with a simple random method proportional to the taxpayers in the general and simplified regimes.

²Ministerio de Desarrollo Social de Uruguay (Ministry of Social Development).

³IU = 2.6182 pesos on 30 June 2013. Source: National Institute of Statistics.

1.1.8 The method of data collection varied in each pilot country. In Costa Rica, a consultant obtained the sample information by means of face-to-face contacts. In Uruguay, an online survey was conducted with the technological support of CIAT. The relevant literature makes observations about the advantages and disadvantages of different methods of gathering information, though this study does not analyse whether the survey findings were influenced by the methodology used.⁴

1.1.9 The study focused on businesses in the formal sector — that is to say, it included only taxpayers registered with the tax administration. There was no assessment of businesses in the informal sector or the reasons why they remain informal.

1.1.10 Finally, it should be noted that the study is somewhat different for each country because of each one’s tax, economic or social conditions. Nonetheless, there are certain comparable variables that should be analysed in this context of unobserved heterogeneity.⁵

1.2 Tax compliance costs

1.2.1 Internal costs are part of compliance costs and their main variable is the time that the taxpayer spends on compliance. The times estimated by taxpayers were distributed throughout the tax cycle, covering registration, filing returns, payment, withholdings, accounting, refunds and request-response to tax claims. The total annual time required by taxpayers to comply with their tax obligations is summarized in Table 4.

Table 4:
Annual hours required for tax compliance, 2013

	Costa Rica	Uruguay
Total hours per year	134	241

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

⁴More information on the advantages and disadvantages of each methodology can be found in Duffy, and others (2005).

⁵There are statistical methodologies that allow for the separation of the structural persistence effects from the effects of unobservable heterogeneity. Several explanatory models are detailed below.

1.2.2 To render internal compliance costs (hours/year) in economic terms, the concept of labour opportunity cost was used. In Costa Rica, an accountant's minimum salary according to the Ministry of Labour in 2012 was used. In Uruguay, the average salary of a professional accountant as reported in the *Continuous Household Survey 2012* was used.

Table 5:
Labour opportunity cost

(Hourly salary, United States dollars)

	Costa Rica	Uruguay
Hourly salary (United States dollars)	4.80	6.25

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.3 The country studies of both Costa Rica and Uruguay show that a high proportion of taxpayers recurrently use external tax advisers in complying with their tax obligations. This is apparent among taxpayers in both the general and simplified regimes.

Table 6:
Use of an external tax adviser

	Costa Rica	Uruguay
Percentage taxpayers reporting they use an external tax adviser	47	64.3
Percentage general system taxpayers reporting they use an external tax adviser	48	71
Percentage simplified regime taxpayers reporting they use an external tax adviser	42	37

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.4 External tax advisory services are used widely in both countries, mostly for outsourcing a business's accounting, specialized tax advice or normal procedures in the tax administration. The costs of external accounting advice vary substantially depending on the scope of the services. In Uruguay, minimum costs (tariffs) are standardized by the CCEAU; in Costa Rica, the minimum is determined annually by the Costa Rican College of Public Accountants.

One important effect is that although internal costs may be lower than external costs, a high proportion of businesses outsource these services. Apart from the rational factors mentioned in each of the surveys, this decision may stem from sociological and cultural factors in each country.

1.2.5 In addition to the internal and external costs, compliance costs included other general costs incurred by businesses to pay for such things as computers, software, graphical material, invoices, receipts, and so on. Table 7 shows compliance cost values in United States dollars and nominal terms relative to 2012 gross domestic product (GDP) in dollars.

Table 7:
Tax compliance costs

	Costa Rica	Uruguay
Compliance costs (United States dollars thousands)	746 937	662 735
Compliance costs (percentage of 2012 GDP)	1.67	1.31

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.6 Although the compliance cost was higher in Costa Rica than in Uruguay in relative terms, costs in absolute terms were higher in Uruguay at the level of businesses. The weighted average cost per business in Uruguay amounted to US \$2,808 per year, while in Costa Rica it was US \$2,156 per year. It should be noted that there are more taxpayers in Costa Rica than in Uruguay, a circumstance that influences the greater total value.

1.2.7 Another important finding is that the smaller the enterprise, the proportionally greater the compliance cost burden—that is to say, the costs are regressive, which naturally affects the competitiveness of MSMEs.

1.2.8 The effect of this regressiveness was also assessed by eliminating the factors of unobserved heterogeneity in line with the proposed econometric model. The results show that the phenomenon is more substantial in Uruguay than in Costa Rica. In Uruguay, however, the effect may be minimized if the business was created recently. This is in contrast to what happens in Costa Rica, where compliance costs

tend to increase for recently created enterprises. Another important consideration in both countries is that compliance costs are higher for legal entities than for individuals (horizontal inequity).

Table 8:
Tax compliance costs by business size

(Percentage)

Business size	Costa Rica		Uruguay	
	Percentage GDP	Percentage Sales	Percentage GDP	Percentage Sales
Micro	1.49	4.30	0.80	1.21
Small	0.17	0.48	0.36	0.28
Medium	0.01	0.16	0.15	0.03

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.9 An estimate of compliance costs by type of regime in which taxpayers are registered reveals significant differences in both countries: costs are relatively lower in the simplified regime than in the general regime, a circumstance that supports the goal of designing simplified regimes.

Given the evidence of regressiveness, however, the hypothesis may be that the number of taxpayers in the simplified regime is very small relative to the total population, or that the general compliance costs in the general regime are much higher than costs in the simplified system.

Table 9:
Tax compliance costs by regime

Tax regime	Costa Rica	Uruguay
	GDP percentage	GDP percentage
General	1.59	1.23
Simplified	0.08	0.08

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.10 In order to assess the compliance cost structure, the survey included several questions on the taxpayer's tax cycle.

Table 10:
Tax compliance time by tax cycle

	Costa Rica	Uruguay
Tax cycle	Hours/Year	Hours/Year
Registration and information	43	70
Filing and payment	86	150
Control	3	10
Administrative claims and tax refund	6	11
Total	138	241

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.2.11 The information and registration process presents the taxpayer with three sub-processes: registering or updating data in the tax administration; training on tax issues; and accounting records. Taxpayers were asked how many hours they devoted to each of these activities.

In Costa Rica, the sub-process that involved the longest transaction time was preparing and filing accounting records. In Uruguay, filing and payment were the activities that caused the most transaction time, though more time was spent on updating tax information.

Times tended to be shorter for taxpayers in the simplified regime because of the lesser frequency of filing. According to the survey, however, the time devoted to keeping accounting records and acquiring information tended to be similar to the time needed in the general system.

1.2.12 As regards the use of online services, in both countries there was widespread Internet access. In Costa Rica, 66 per cent of respondents reported that they used the Internet to comply with their tax obligations, while 72 per cent did so in Uruguay. Nonetheless, as regards the means used to file a tax return by type of tax regime, 100 per cent of taxpayers in the simplified regime still filed physical returns.

1.2.13 Given the average time required to complete forms and the frequency of filing and payment, it was estimated that VAT entailed the highest compliance cost. The time needed to complete the general sales tax forms in Costa Rica was 1.2 hours each, while an average of

1.6 hours was required for the income tax return form. In Uruguay, the average time to complete VAT forms was 2.28 hours each, while 5.15 hours were required for the income tax form. It should be noted, however, that VAT returns are filed monthly while income tax returns are annual.

1.2.14 With regard to audits, the survey indicated that 9 per cent of taxpayers in Costa Rica were subject to some tax control action in the past year, mostly verification of business information. In Uruguay, the share was 19.8 per cent, the most frequent control action being verification of discrepancies in returns or payments. According to interviews in the two tax administrations, both institutions are in the process of introducing risk management models to prioritize control actions, though the degree of implementation is still limited.

1.2.15 Tax refunds are common processes in both countries but they are much more frequent in Uruguay (19 per cent). The average times for refunds in both cases, according to the survey, were within the maximum deadlines established by law: 60 working days in both countries.

1.2.16 The quantitative assessment and econometric study did not reveal any differences in tax compliance costs among economic sectors except for those taxpayers defined as “professionals” in Uruguay, who have certain special considerations with respect to income tax but not VAT. As regards differences in transaction costs stemming from the tax regime (simplified or general) to which businesses are subject — given the design of the simplified regime in Costa Rica, for example, where consideration is given to particular sectors — it could be assumed that there is some difference, although it is not evident in average values.

1.3 Tax administrative costs

1.3.1 The tax administrations’ institutional budgets comprise the administrative costs. The DGT and the GTD are both under the aegis of the Ministry of Finance in their countries — that is to say, they are functionally dependent on the Ministry. Hence, the budgets of both institutions depend on the Ministry’s budgetary allocations and, by way of pre-allocation, depend on what they collect in revenue — as is the case for other tax administrations in the region.

Table 11:
Administrative costs

(2012 United States dollars)

	Costa Rica	Uruguay
In United States dollars	51 015 029	95 322 708
Percentage of tax revenue	1.35	0.95
Percentage of GDP	0.11	0.19

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.3.2 The budget structures of the DGT and the GTD reflect the large share of spending on staff remuneration. In Costa Rica's DGT, this item accounts for about 70 per cent of the budget, and in Uruguay's GTD the share is about 88 per cent. The former institution has 971 officials and the latter has 1,413.

1.3.3 Their organizational structures are similar, as they are responsible for the main process of the tax cycle (internal taxes), except for enforced collection and information technology at Costa Rica's DGT, where these processes are shared with other departments within the Ministry.

1.3.4 The main indicators can be used to assess the productivity of each tax administration's budget.

Table 12:
Budgetary indicators, 2012

	Costa Rica	Uruguay
Population/employee	4 791	2 325
Revenue in US \$/employee	3 904 799	7 135 740
Budget in US \$/employee	52 539	67 461

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.3.5 On the basis of the proposed methodology, the administrative costs were estimated according to the main processes of the tax cycle. Table 13 shows them in detail.

1.3.6 Table 13 indicates that the greater share of administrative costs relative to GDP is absorbed by tax control and collection in both countries.

Table 13:
Administrative cost by tax cycle

(Percentage of GDP in 2012)

	Costa Rica	Uruguay
Registration and information	0.03	0.02
Filing returns and payment	0.02	0.02
Control and collection	0.06	0.14
Administrative claims and tax refunds	0.01	0.01

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.3.7 The two countries devote similar shares of administrative costs to taxpayer assistance and information. In Uruguay, however, the budgetary allocation to control processes is greater than in Costa Rica's DGT. There is a consequent relationship between spending on tax control actions and compliance costs. In Costa Rica, 9 per cent of survey respondents said that they were subject to some action by the tax administration, while in Uruguay some 19.8 per cent said that they had been contacted by the DGT for the purposes of some control process.

1.3.8 Finally, it is important to point out that there are opportunities to improve the internal organization of the tax administrations in both countries. In Costa Rica's case, it is important to review cross-cutting processes and unify operational and management criteria, especially in the area of registering information, where certain deficiencies in data quality are evident. Additionally, setting specific objectives by key processes would help to improve organizational performance. Uruguay's GTD has been results-oriented since 2005, in line with the Ministry of Finance's Decree 166/005 of 30 May 2005. This results-based approach must be grounded on an analysis of the key processes involved in attaining results, especially in meeting the goals set out in the Management Commitment. This would help to improve performance evaluation within the organization.

1.4 Tax transaction costs

1.4.1 According to the proposed methodology, tax transaction costs are the sum of compliance costs and administrative costs. Table 14 gives details of tax transaction costs in Costa Rica and Uruguay.

Table 14:
Tax transaction costs

(Percentage of GDP in 2012)

	Costa Rica	Uruguay
In thousands of United States dollars	797 969	758 095
Percentage of GDP	1.79	1.50

Source: Costa Rica and Uruguay Country Studies (see Parts Two and Three of the present report).

1.4.2 Compliance costs thus comprise the greater part of transaction costs. In other words, it is the taxpayer that incurs most of the costs generated by taxation.

1.4.3 As compliance costs account for the greater part of tax transaction costs, it is a cause for concern that such costs are regressive and discourage voluntary compliance. It is important to evaluate the main source of these costs and propose reforms or adjustments to the tax system or to tax management that may allow them to be reduced.

1.4.4 Finally, it should be noted that the tax administrations that participated in the project have specific plans to improve tax compliance among small and medium enterprises (SMEs), though there is no explicit cost-reduction strategy for them. It is hoped that the present project may be the basis of plans and programmes to reduce tax transaction costs among MSMEs, thereby allowing medium-term improvements in revenue collection and tax compliance among this segment of taxpayers.

Final relevant considerations

No.	Findings	Recommendations
1	Transaction costs are high relative to the size of the economies analysed, and mainly affect MSMEs.	<p>It is important to review in detail the root causes of these costs and establish plans or programmes that prioritize their reduction or elimination.</p> <p>It is advisable to conduct periodic assessments of tax transaction costs, or of their main root causes.</p>
2	Tax compliance costs account for the bulk of tax transaction costs (94 per cent in Costa Rica and 87.5 per cent in Uruguay).	<p>It is possible to try to reduce compliance costs through greater spending on taxpayer assistance or reviews of tax management processes; this would entail additional investment on the part of the national tax administrations.</p> <p>An increase in transaction costs may be justified if compliance costs are reduced relative to administrative costs, as the whole system would be more progressive.</p>
3	Transaction costs, mainly taxpayers' compliance costs, have regressive effects (relative to business size).	<p>MSMEs make up the greater part of the taxpayer base. Transaction costs have a fixed-cost structure whether they are internal or external.</p> <p>The tax simplification efforts made in both countries are important, but there is still scope for improvement and for reducing costs, mainly as regards the requirements for filing tax returns and the obligation to present information and accounting records.</p>

<p>4</p>	<p>In general terms, in both countries, the simplified regime has helped reduce transaction costs significantly (compliance as well as administrative costs because of the control applied to this taxpayer segment). Given the level of revenue and compliance, however, they might have to be assessed further.</p>	<p>It is important to assess the prospect of introducing online tools for registration, simplified filing or annual presumptive payment that may allow taxpayers in the simplified regime to reduce the number of their transactions with the tax administration and, if possible, increase use of banking services.</p> <p>This factor, besides reducing taxpayers' transportation time and costs, would help reduce significantly the need for external advisers.</p> <p>When simplified regimes have presumptive payment systems, it is important that the tax administrations have sections that specialize in providing information to this taxpayer segment, and which at the same time comprise groups that review compliance with this regime's requirements. This might also lessen the frequency of the "type II error" (taxpayers who should not be registered and are). This type of strategy will help reduce compliance costs even though transaction costs may rise, thus making the tax system more progressive.</p>
<p>5</p>	<p>The greater part of compliance costs stems from accounting records and tax returns.</p>	<p>Tax management is very important to tax design. It is recommended that the number of obligations and frequency of filing tax returns, including information statements, be reviewed.</p>

		<p>A very useful tool for reducing tax transaction costs is to create draft returns that may help taxpayers to save time in preparing their returns.</p> <p>In the case of simplified regimes, it is important to include shorter and online returns.</p>
6	<p>There is little detailed information on more specialized enquiries or obligations.</p>	<p>According to the surveys, one of the reasons that businesses seek external advice is the lack of specialized information from the tax administrations.</p> <p>It is important to improve the channels of information for taxpayers, as well as the level of specialization of non-binding tax enquiries that the institution can offer. This would also help to reduce dependency on external advisers and thereby reduce transaction costs considerably.</p>
7	<p>Widespread controls have a greater effect on MSMEs in cost terms, and managing the taxation of micro and small enterprises is costly for the tax administration.</p>	<p>Tax management processes usually go from mass to specific. Given the constraints on management resources and the costliness of managing the total taxpayer base, it is important to have risk management tools throughout the taxpayer cycle.</p> <p>Risk management in the tax administration helps reduce costs because activities are better focused, and enables the administration to boost its effectiveness.</p>
8	<p>According to the surveys, most taxpayers use cash to pay their taxes.</p>	<p>It is suggested that an analysis be conducted of the implementation of streamlined and less costly payment mechanisms that lead taxpayers to use banking services.</p>

		<p>An interesting example in Uruguay is a recently implemented plan for VAT. When individuals make payments using debit or credit cards, they receive a discount.</p>
9	<p>The study revealed that there are differences in costs between individuals and companies, a circumstance that causes horizontal inequity in the system.</p>	<p>These differences are usually caused by the design of the tax, since often there are more requirements. It is advisable to review the procedures and requirements. Moreover, it is important to assess the costs generated by businesses, even if they are in the simplified regime.</p>
10	<p>There is evidence of significant effort and investment in improving online assistance and the filing of returns, thereby taking advantage of citizens' greater use of the Internet.</p>	<p>In Latin America, tax administrations are usually innovative in offering alternative online services for taxpayers. It is recommended that a technological roadmap be drawn up for the planning of online accounting tools or systems for filing tax returns geared specifically to MSMEs.</p> <p>Another important matter that tax administrations should consider is to structure their information systems as a single system that includes integrated applications and processes that obviate the duplication of information and even, to the extent that it is feasible, to interconnect them with other public institutions or databases. This would help to reduce the number of additional information requirements demanded of taxpayers and to improve internal tax management.</p>

<p>11</p>	<p>In both countries there is significant use of external tax advisers for the main regular transactions and enquiries.</p>	<p>In several countries, tax administrations have recognized the external tax adviser segment as part of the tax value chain as tax intermediaries.</p> <p>This strategy may help formalize the relationship between the external adviser and the tax administration, thus helping to establish cooperative approaches instead of harmful competition.</p> <p>Another important matter is to introduce tax advisers into tax training strategies, so that they can be used as tax intermediaries with the whole MSME base.</p>
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Annex I. Results of econometric models

Model 1: Random effects

```
-----
Random-effects GLS regression   Number of obs   =       1706
Group variable: country        Number of groups =         2

R-sq: within = 0.2422          Obs per group: min   =       842
      between = 1.0000                    avg             =     853.0
      overall  = 0.3552                    max             =       864

Random effects u_i ~ Gaussian   Wald chi2(10)    =     814.03
corr(u_i, X)                   = 0 (assumed) Prob > chi2  =     0.0000
```

(Std. Err. adjusted for clustering on country)

```
-----
              |               Robust
              |               Coef.   Std. Err.   z   P>|z|   [95% Conf. Interval]
-----+-----
      reg_sim |   -0.1744866   .0593543   -2.94   0.003   -0.2908188   -0.0581544
      legal   |    0.2453266   .0533059    4.60   0.000    0.1408489    0.3498042
employees    |    0.4614555   .0393491   11.73   0.000    0.3843326    0.5385783
      lyear   |    0.0328296   .0259319    1.27   0.206   -0.017996    0.0836552
      adviser |    0.8091448   .0783805   10.32   0.000    0.6555218    0.9627677
commerce    |    0.1440517   .0766668    1.88   0.060   -0.0062124    0.2943158
professionals |    0.0930919   .1377879    0.68   0.499   -0.1769674    0.3631511
services    |   -0.0149876   .0722994   -0.21   0.836   -0.1566918    0.1267165
res_account. |    0.0789181   .0763695    1.03   0.301   -0.0707634    0.2285996
      web     |    0.0996825   .0525581    1.90   0.058   -0.0033295    0.2026945
      _cons  |    5.153944   .0939617   54.85   0.000    4.969783    5.338106

-----
sigma_u      |           0
sigma_e      |    0.99493348
rho          |           0 (fraction of variance due to u_i)
-----
```

Model 2: Fixed effects

```
-----
Random-effects GLS regression   Number of obs   =       1706
Group variable: country        Number of groups =         2

R-sq: within = 0.2422          Obs per group: min   =       842
      between = 1.0000                    avg             =     853.0
      overall  = 0.3517                    max             =       864

                                  F(10,1694)      =     38.65
corr(u_i, Xb) = 0.5320          Prob > F        =     0.0000
```

(Std. Err. adjusted for clustering on country)

TAX TRANSACTION COSTS: COUNTRY STUDIES

Model 2: (cont'd)

```

-----
                |
                |           Robust
lcost          |   Coef.   Std. Err.   t   P>|t|   [95% Conf. Interval]
-----+-----
    reg_sim    | -0.2101223   .0607307  -3.46  0.001   -0.3292373   -0.0910073
      legal    |  .2603293   .0533941   4.88  0.000    .1556039    .3650547
 employees    |  .4408772   .0394422  11.18  0.000    .3635167    .5182377
      lyear    |  .0318177   .0258686   1.23  0.219   -0.0189202    .0825555
      adviser   |  .6599697   .1055747   6.25  0.000    .4528991    .8670403
 commerce     |  .1541907   .0761309   2.03  0.043    .0048702    .3035112
 professionals | -0.0362129   .1506214  -0.24  0.810   -0.3316365   .2592107
      services  |  .0138808   .0721117   0.19  0.847   -0.1275566    .1553182
 res_account. |   .00657    .0787363   0.08  0.934   -0.1478606    .1610006
      web       |  .1093569   .0527705   2.07  0.038    .0058547    .2128591
      _cons     |  5.237935   .1042122  50.26  0.000    5.033537    5.442334
-----
sigma_u        |  .18358964
sigma_e        |  .99493348
rho            |  .03292812 (fraction of variance due to u_i)
-----

```

Hausman test

hausman fixed ., sigmamore

```

-----
                ---- Coefficients ----
                |   (b)      (B)      (b-B)      sqrt(diag(V_b-V_B))
                |   fixed      .      Difference   S.E.
-----+-----
    reg_sim    | -0.2101223  -0.1744866  -0.0356357   .0137175
      legal    |  .2603293   .2453266    .0150027    .0052059
 employees    |  .4408772   .4614555   -0.0205783   .0041213
      lyear    |  .0318177   .0328296   -0.0010119   .0009358
      adviser   |  .6599697   .8091448   -0.1491751   .0712157
 commerce     |  .1541907   .1440517    .0101391     .
 professionals | -0.0362129   .0930919  -0.1293048   .0619845
      services  |  .0138808  -0.0149876   .0288684    .0022729
 res_account. |   .00657    .0789181  -0.0723481   .0201387
      web       |  .1093569   .0996825   .0096744    .0062968
-----

```

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic
chi2(10) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= -6.98 chi2<0 ==> model fitted on these
data fails to meet the asymptotic
assumptions of the Hausman test;

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Model 3: OLS robust for Costa Rica

Linear regression		Number of obs	=	842		
		F(10, 831)	=	5.35		
		Prob > F	=	0.0000		
		R-squared	=	0.0561		
		Root MSE	=	.6916		
	Lcost	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
reg_sim		-.0027838	.0614568	-0.05	0.964	-.1234126 .1178451
legal		.0965741	.0513046	1.88	0.060	-.0041278 .197276
employees		.2751541	.0509793	5.40	0.000	.1750908 .3752174
year		-.0076551	.0049277	-1.55	0.121	-.0173273 .002017
adviser		.1602947	.0482344	3.32	0.001	.065619 .2549703
commerce		.0053736	.0764808	0.07	0.944	-.1447446 .1554918
professionals		-.0082035	.2243983	-0.04	0.971	-.4486576 .4322507
services		.0243022	.0636182	0.38	0.703	-.1005691 .1491735
res_account.		-.0367297	.1087883	-0.34	0.736	-.2502618 .1768025
web		-.1594659	.0500343	-3.19	0.001	-.2576745 -.0612574
_cons		5.586121	.1006179	55.52	0.000	5.388626 5.783617

Model 4: OLS robust for Uruguay

Linear regression		Number of obs	=	864		
		F(10, 853)	=	40.22		
		Prob > F	=	0.0000		
		R-squared	=	0.3326		
		Root MSE	=	1.1859		
	Lcost	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
reg_sim		-.3333384	.1334976	-2.50	0.013	-.5953605 -.0713162
legal		.331157	.1080923	3.06	0.002	.1189988 .5433151
employees		.4180617	.0471567	8.87	0.000	.325505 .5106185
lyear		.0742809	.0472599	1.57	0.116	-.0184785 .1670403
adviser		.5442116	.1111074	4.90	0.000	.3261357 .7622875
commerce		.2334792	.1148519	2.03	0.042	.0080538 .4589047
professionals		-.0771109	.1878712	-0.41	0.682	-.4458549 .291633
services		-.0519253	.1255282	-0.41	0.679	-.2983056 .1944551
res_account.		-.1063012	.0953624	-1.11	0.265	-.2934736 .0808712
web		.4638475	.1114449	4.16	0.000	.2451092 .6825858
_cons		5.155723	.1900934	27.12	0.000	4.782617 5.528828

List of variables

```

-----
lcost          = Cost of annual tax compliance in US$ (in logarithm)
reg_sim        = Simplified regime = 1
legal          = Company = 1
employees      = number of employees
lyear          = year of creation of company (in logarithm)
adviser        = Has external accounting adviser = 1
Commerce       = Belongs to commerce sector = 1
Professional   = Belongs to professional sector = 1
Services       = Belongs to services sector = 1
Respond to
accountant     = the accountant carries out the survey = 1
Web            = Has Internet = 1
-----

```

Explanatory note to the results of the econometric models

- A cross-section data model based on surveys conducted in Costa Rica and Uruguay is proposed, wherein the dependent variable is the estimated tax compliance cost for each country.
- Models 1 and 2 are random-effects and fixed-effects models. The Hausman test rejects the hypothesis of the consistency of fixed effects, suggesting that the more robust model is the random-effects model or each country's individual model. The differences in behaviour regarding compliance costs and the explanatory variables are more important within each country than as regards factors shared between countries (see Models 3 and 4).
- With respect to main findings, it is clear that special regimes have helped reduce compliance costs in both countries (negative sign). It is also plain that the larger the business, the higher the costs. Relative to sales, however, the effect is regressive because the difference in sales between businesses is greater.
- Finally, in both countries the costs of the external accounting adviser raises compliance costs. It is important to assess this effect relative to the potential benefit to the taxpayer of having an in-house accountant, or for the tax administration to consider limiting some kind of activity that may cause the taxpayer to resort to hiring an external adviser.

Conceptual framework for impact assessment evaluation⁶

Impact assessments of public policies have been carried out with ever more sophisticated statistical and econometric methods, with a view to arriving at a scientifically rigorous evaluation. The popularity of these methods has led to their being used in numerous contexts.

The concept of causality has been changing over centuries, though the crux of the matter remains the same: an interest in studying the causal relationship between variables. This study began with the initial question of any impact study: what is the causal effect (counterfactual) of variable X on variable Y?

The answer might not be a trivial matter, neither from the analytical nor the data standpoints, because in order to have an idea of this effect some awareness of the causal relationship between these variables is needed.

For a long time it was thought that statistics had little to contribute to causal analysis. Acceptance of the phrase “correlation does not imply causation” has signified the limit that the field of statistics imposed on itself in its contribution to the analysis. This is because inferential statistics traditionally studied how data “appear” in the real world. Such an interest leads to the study of the joint probability distribution of these variables, which tells of the probabilities of their occurrence. Thereafter, with a sample of observations of these variables and making some simplifying assumptions about the structure of this data generating process, inferential statistics obtains estimators of the configuring parameters.

The idea of the counterfactual effect may be formalized by using the Neyman-Rubin causal model as follows:

Y_1 and Y_0 denote the potential results for an individual with and without treatment, respectively. The Y result observed for an individual is Y_1 if the individual is treated and Y_0 otherwise. The binary variable D indicates the status of treatment of the individuals, with $D = 1$ for those who participate and $D = 0$ for those who do not participate.

⁶For more information, see García Nuñez (2010).

The observed result may therefore be stated as:

$$Y = Y_0 x (1 - D) + Y_1 x D$$

In this context, Y_0 is the counterfactual result for the treated units and Y_1 is for the untreated units.

The impact of the programme for individual i , which cannot be observed, is defined as the difference between the two potential results:

$$\delta = Y_1 - Y_0$$

In general, impact assessments focus on calculating the average effect of the treatment and not the individual one. In practice, several “average effects” may be calculated.

First, the average treatment effect (ATE) is the average impact of the treatment on the entire population:

$$ATE = E(\delta) = E(Y_1 - Y_0)$$

Second, ATT is the average impact of the treatment on the treated population:

$$ATT = E(\delta | D = 1) = E(Y_1 - Y_0 | D = 1)$$

Third, the average effect of the treatment on the untreated (ATU) is the impact that the programme would have had on the population that did not participate:

$$ATT = E(\delta | D = 0) = E(Y_1 - Y_0 | D = 0)$$

None of these parameters, however, may be observed. For example, ATT may be rewritten as:

$$ATT = E(Y_1 | D = 1) - E(Y_0 | D = 1)$$

where the second term is unobservable, since it measures the average result that the treated population would have had without treatment. One possibility is to exchange the second term for $E(Y_0 | D = 0)$, which is the average result observed for the untreated population.

Therefore:

$$\begin{aligned}\Delta &= E(Y_1 | D = 1) - E(Y_0 | D = 0) \\ \Delta &= E(Y_1 | D = 1) - E(Y_0 | D = 1) + E(Y_0 | D = 1) - E(Y_0 | D = 0) \\ \Delta &= ATT + SB\end{aligned}$$

where the last term is generally called selection bias. This term reflects the difference between the counterfactual effect in the treated individuals and the result observed in the untreated individuals. Unless the selection bias is zero (which in practice is hardly probable), econometric techniques have to be applied in order to calculate correctly the average impact of the programme.

Methodological standards

The key element in an assessment is to build a credible counterfactual so as to attribute the outcomes correctly to the intervention of the policy under assessment. There are experimental and quasi-experimental methods of assessing public policy programmes.

Experimental design:

The literature on impact assessments regards the experimental design as superior. This type of design is based on dividing a representative sample at random into a treatment group and a control group. This random assignment to treatment ensures a balance between the treated and untreated units with respect to the average observable and non-observable characteristics. Hence, the two groups are comparable and selection bias is eliminated.

Quasi-experimental and non-experimental methods:

In the absence of a random assignment, pre-existing differences between participants and non-participants in a programme may cause biases that make it very difficult to calculate the impact.

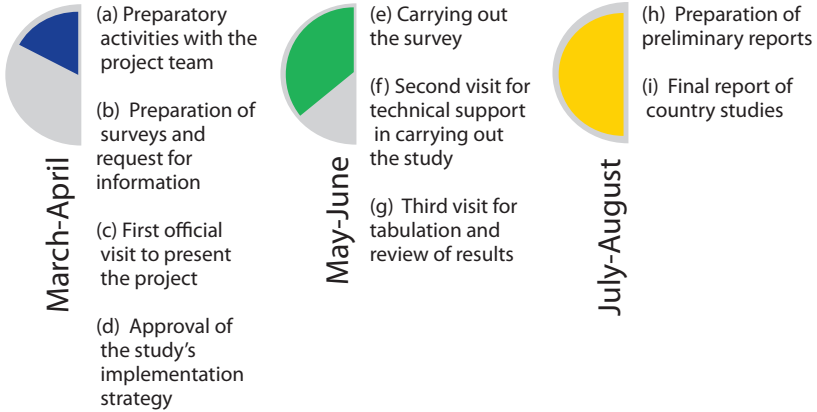
The main concern is selection bias, which may stem from two sources. First, there may be an administrative bias (or programme-placement bias), which occurs when the administrators of the programme select the participants on the basis of specific criteria that

distinguish them from non-participants. Second, there is a self-selection bias, which occurs when individuals decide whether or not they will participate on the basis of some type of cost-benefit analysis that, again, may entail significant differences between the group of participants and non-participants.

In practice, it is quite probable that there might be a combination of the two types of selection biases: in general, all public interventions have a target population such as MSMEs, young researchers who are willing to study abroad, or farmers willing to introduce new technologies. Within that target population, individuals or businesses might decide whether or not to participate. As a result, a simple pre-existing difference of average values between the treated and untreated contaminates the estimate of the effects of the programme and renders it inaccurate.

A first approach to overcoming this problem is to control the factors that cause the selection bias. The techniques that take this approach include regression methods and propensity score matching, the differences-in-differences method, and fixed-effect models. A second approach, represented by the instrumental variables method and discontinuous regression, consists of analysing specific characteristics of the assignment rules in an effort to replicate the experimental environment.

Annex II. General implementation scheme



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