



**USAID**  
FROM THE AMERICAN PEOPLE



# USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

## **Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean**

### **Chapter 17. Integrity**

*Prepared by: Terry Murdoch*

**August 2013**

Contract Number: EEM-I-00-07-00005-00

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP.

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

## Chapter 17. Integrity

**Program Name:** USAID Leadership in Public Financial Management (LPFM)

Sponsoring USAID Office: USAID/LAC

**Contract Number:** EEM-I-00-07-00005-00 Task Order: 11

**Contractor:** Deloitte Consulting LLP

Date of Publication: August 31, 2013

### Authors

Terence Murdoch  
Subject Matter Expert  
USAID/LPFM  
e-mail: [tmurdoch@deloitte.com](mailto:tmurdoch@deloitte.com)

### Disclaimer

The author's views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

# Table of Contents

<b>List of Acronyms and Abbreviations</b>	<b>4</b>
<b>ACKNOWLEDGMENTS:</b>	<b>5</b>
<b>Chapter 17. Integrity</b>	<b>6</b>
<b>17.1. Leading Practice</b>	<b>6</b>
17.1.1. Fundamental Approach	7
17.1.2. Administrative and Legal Approach	9
17.1.3. Transparency and Standards Approach	13
<b>17.2. Common Trends</b>	<b>15</b>
17.2.1. The Power of Information	15
17.2.2. Citizen / Taxpayer Charters	15
17.2.3. Ombudsman	16
<b>17.3. Tax Administration Maturity</b>	<b>16</b>
<b>17.4. Latin America and the Caribbean</b>	<b>18</b>
<b>17.5. Key Benchmarks and Guidelines</b>	<b>20</b>
<b>REFERENCES:</b>	<b>22</b>

## List of Acronyms and Abbreviations

Acronym	Definition
CIAT	Inter-American Center of Tax Administrations
IT	Information technology
LAC	Latin America and the Caribbean
OECD	Organisation for Economic Co-operation and Development
SARA	Semi-Autonomous Revenue Agency

## ACKNOWLEDGMENTS:

A number of persons contributed to drafts of this document. Doug Pulse and Anton Kamenov provided an outline for the chapter and, with Rajul Awasthi of the World Bank Group, commented on drafts. Arturo Jacobs provided revisions. This assistance is greatly appreciated. Errors and omissions should, of course, be attributed to the authors.

# Chapter 17. Integrity

Integrity is defined in the broad sense of honesty, moral correctness, respectability, fairness, equal treatment, and ethical behavior across a range of operational and management issues. Integrity is not about preventing corruption in a narrow sense, but rather about securing and maintaining public confidence. Integrity is a core value and must be part of the tax administration's organizational culture to prevent wrongdoing and reputational damage. For civil servants, in particular, integrity is about putting the public good above their own personal interests.

Tax administrations are often regarded as lightning rods for corruption in public sectors around the world. Notwithstanding this reputation, the vast majority of tax administration staff is generally honest, industrious, and dedicated. However, the reality is that a few corrupt officials can seriously harm the reputation of the organization as a whole. All failings, whether minor or serious, need to be addressed so that public confidence can be reestablished and the good reputation of the service restored. Unfortunately, given that widespread publicity on this issue drives public opinion, it is incumbent upon the tax administration to take proactive steps to ensure that it maintains a reputation of integrity.

Confidence in the tax administration and faith in its dependability and integrity are factors that have a critical impact on the administration's ability to carry out its role. The administration can maintain public confidence only to the extent that its contact with taxpayers and the general public consistently reflects the highest ethical and moral standards.

Public and political confidence, along with operational effectiveness, can be affected by the inappropriate behavior of a small minority of staff. The sensational and disproportionate publicity arising from their actions overshadows the huge amount of good work carried out every day, often in difficult (and sometimes dangerous) circumstances by the vast majority of staff. It is therefore binding on all tax administrations to have measures to assist in establishing integrity and maintaining it.

## 17.1. Leading Practice

In general, integrity strategies comprise a variety of direct action measures against corrupt behavior, while simultaneously pursuing reforms of policies and institutions. Such strategies, on the whole, combine three overarching approaches:

- *Fundamental approach:* The objective of this approach is to remove the conditions that give rise to corruption in the first place. Such reforms seek to address weaknesses in policies and institutions by simplifying the tax system and reforming the tax administration.
- *Administrative and legal approach:* This approach introduces rules and regulations designed to specifically limit the discretion of public officials. These are intended to increase the probability of detection of corrupt practice through strengthened monitoring and enforcement and the timely and stiff punishment of offenders. This approach also includes the implementation of internal monitoring units within organizations and the protection of whistleblowers. Here,

senior managers of the tax administration are directly responsible and must be held accountable for failures to detect and/or address breaches.

- *Transparency and standards approach*: This approach relies on good governance promoted through transparency and standards in the conduct of the administration's business. Among the benefits of this approach is the strengthened accountability of public officials and, hence, reduced corruption. Before engaging the public as part of an anti-corruption campaign, however, adequate follow-up and enforcement mechanisms must be in place.

Clearly, none of the three approaches is likely to be sufficient by itself. An effective integrity strategy needs to employ all three approaches. The following sections provide a more detailed description of each of the three approaches.

### **17.1.1. Fundamental Approach**

As discussed above, the objective of this approach is to remove the conditions that give rise to corruption. The following areas should be addressed.

#### *Establish an Effective Tax Regime*

Tax policy is both practical and conceptually well founded when it is based on the following principles: simplicity, adequacy, equity and fairness, economic efficiency or neutrality, ease of administration, stability, and certainty. A tax system (and the primary legislation that establishes it) is:

- *Simple, clear, or transparent* if it collects revenues in a way that is easily understood by the taxpayer and is not costly to the taxpayer. The cost of compliance must be kept low, specifically to encourage small and medium taxpayers to comply voluntarily and not make themselves vulnerable to coercion from corrupt tax officials;
- *Adequate, sufficient, or sustainable* if it collects sufficient revenues to allow the government to deliver the requisite level of services;
- *Equitable or fair* if taxpayers with similar ability to pay contribute similar amounts ("horizontal equity") and if taxpayers with greater ability to pay contribute larger amounts ("vertical equity");
- *Efficient or neutral* if it does not interfere with the economy;
- *Easy to administer* if it allows the government to collect the right revenues cheaply; and
- *Stable* if it generates predictable amounts of revenue year after year.

Tax policy is beyond the scope of this chapter. Suffice it to say that adhering to the above principles goes a long way towards instituting a perception of fairness in the tax system as a whole, and in the government and the tax administration in particular. Of the aforementioned objectives, simple tax laws constitute an important step towards making the public comfortable with the tax regime. Simple tax laws and procedures enable taxpayers to interpret tax law on their own by understanding the true legislative intent of the provisions applicable in their respective cases. Tax laws that reduce discretion with tax officials to a minimum help remove opportunities for rent seeking and increase public confidence in the tax regime.

## *Organizational Structure*

Modern tax administrations have adopted an organizational structure which is functional in nature and is regarded as a positive deterrent against corrupt practice. Separation of the functional work areas (and therefore staff), such as audit, collection, and legal services, is accompanied by a vertical organization with strong headquarters, who oversee managers of specific geographical areas. Such a structure protects some functions from infectious corruption and prevents chain corruption being developed throughout a particular territory.

Similarly, the allocation of a group of taxpayers to a specific employee for control purposes, whether it be office audit, field audit, or collection activities, is not regarded as best practice. Certainly, with regard to audit of the largest taxpayers, it can take time for an officer to familiarize himself/herself with the taxpayer's accounting and business practices, so it makes sense in these specific areas to permit some ongoing relationship for a limited period of time. In general, however, similarities in many operational procedures allow the tax administration to rotate staff among taxpayers frequently in order to prevent relationships and connections that may create opportunities for corruption. In some tax administrations, staff is also transferred across geographical areas to deter inappropriate taxpayer/staff relationships. However, such policies should allow for exemptions in cases of financial and/or family hardships for employees and should therefore be applied judiciously.

## *Procedures and Practices*

Administrative transparency can assist not only in achieving high voluntary tax compliance, but also in reducing opportunities for corruption by tax officials. Standardized procedures and electronic and physical tax forms, which are made widely available to taxpayers, limit one-on-one contact between tax officials and taxpayers. Further, standardized administrative processes ensure that all taxpayers are treated in a consistent manner.

The tax administration must include policies and procedures to detect and deter corruption. All plans and operations should be designed to make corrupt practice difficult and to provide for accurate records of all transactions, their underlying motivation, and the offices and individuals responsible for all actions.

## *Automation*

As more processes are automated, discretion is significantly reduced and processes become impersonal. Obviously, there must be safeguards and security procedures to protect the information within the information technology (IT) system from unauthorized use, abuse, or tampering. The tax administration can protect this information through the allocation of user passwords, limiting access by individual users only to those parts of the system necessary to do their work efficiently, retaining amended documents within the system, as well as indicating who completed the amendment, and only allowing selected development staff to make changes to the software. Providing the IT system is sufficiently secure, automation can significantly reduce the scope for corrupt practice.



Reduced in-person contact with the tax administration is also achieved, to a great extent, by providing taxpayers with options, such as e-filing of returns, e-payment of taxes, filing of relevant applications online, e-tracking of such applications, downloading of tax bills, viewing of tax payments made in banks, etc.<sup>1</sup>

### *Training*

It is vitally important that staff receive appropriate training for the duties they are expected to perform within the tax administration.<sup>2</sup> As tax laws become more complex over time and taxpayers learn new techniques, training should become an ongoing activity, not just a one-off action for new recruits.

It is also important that managers are able to differentiate between honest mistakes made by inadequately trained staff and deliberate errors designed and made for rent-seeking purposes. Ethics training, therefore, should be included as a part of continuing professional education. Training should not focus exclusively on moral or philosophical issues, but rather on instilling an attitude whereby staff, when confronted with ethically ambiguous situations or clear opportunities for corruption, put the reputation of the tax administration ahead of personal welfare or opportunities for financial gain. Moreover, if the risk of unethical behavior is great, the frequency of training should be increased. In any event, ethics seminars and courses should become an integral part of the training curriculum, forming a part of initial orientation of new staff and becoming a staple of ongoing professional education.

#### **17.1.2. Administrative and Legal Approach**

The objective of this approach is to limit potential for corruption and to increase the probability of detection of corrupt practices. The following areas should be addressed.

### *Code of Conduct*

The cornerstone of any anti-corruption strategy for a tax administration must be the adoption of a Code of Conduct or Code of Ethics. The Code should preferably contain three important provisions:

1. First, the Code should explicitly identify those acts that would require the automatic imposition of the most severe sanctions, i.e., termination of employment<sup>3</sup>.
2. Second, the Code should stipulate that the immediate supervisor of an officer found to have committed the most severe violations of the Code should also be subject to an appropriately severe penalty in cases where the supervisor knew about the violation but failed to report it, or where the supervisor should have known about the violation if he/she had been exercising proper supervision.
3. Third, all officers should be required to sign some sort of form acknowledging that they have reviewed the Code and have understood its requirements.

---

<sup>1</sup> IT for tax administrations is discussed in Chapter 12.

<sup>2</sup> Training is discussed in Chapter 14.

<sup>3</sup> Harsher sanctions, such as incarceration may be specified in the tax code or the civil service code, but will not be part of the code of conduct.

It is insufficient, however, merely to adopt a Code of Conduct. There must be appropriate sanctions developed for violations of the Code, which may range from a warning letter to temporary suspension of an employee, dismissal, and referral for criminal action. There must be certainty within the administration that violations of the Code will be sanctioned appropriately. Corrupt employees must be detected, removed, and prosecuted.

The Code of Conduct is the high level regulation, to which all employees must adhere. Supplementary conduct policies that provide significantly more detail on how employees are expected to behave should also be adopted.<sup>4</sup>

The supplementary policies should cover four main areas:

- Behavioral norms around issues, such as: handling taxpayer complaints, disclosure of official identity, confidentiality of information, falsification of official records, conflict of interest, interaction with taxpayers, and off-duty conduct. In addition, there should be guidelines concerning the work environment, including areas like cleanliness, proper attire, behavior and attitude, punctuality, loss or damage to official property, and others;
- Personal conduct relative to: accepting gifts, personal fund raising, lending and borrowing, private employment and outside interests, use of government accommodations, political activities, expressing political views, membership in associations, non-discrimination, and responsibility for personal finances, among others;
- Definitions should be given for, as examples, (a) misconduct and conflict of interest, the latter of which should include circumstances under which an employee must disqualify him/herself from specific assignments, (b) recommending attorneys and accountants, (c) transactions with taxpayers or representatives, (d) purchase of seized goods, and (e) association with persons connected with illegal activities, etc.; and
- Enforcement for breaches of the Code, as well as grievance procedures.

Action must be taken to disseminate these supplementary procedures to all employees, in conjunction with a vigorous program of education on ethics and integrity.

### *Disclosure of Assets/Income*

Given the public perception that corruption is likely to be more prevalent within the tax administration and Customs than other parts of government, some countries have adopted an approach whereby either senior management only, or senior management and all technical staff are required to submit an annual declaration on their income and assets. This declaration would normally include assets and income of close family members.

---

<sup>4</sup> A model Code of Conduct that includes these primary clauses and supplementary procedures was developed by the Inter-American Center of Tax Administrations (CIAT) (2005), *Model Code of Conduct*.  
<http://www.ciat.org/index.php/en/products-and-services/publications/models.html>

These disclosures may either be held open for public scrutiny, retained confidentially for internal use, or sealed and only opened when a charge of corrupt practice is leveled against the individual.

### *Employment Conditions*

Although personnel matters are usually given less attention than technical matters, ignoring the former may handicap the tax administration. Staff from the top to the bottom need to have a degree of job security and know that the organization has fair personnel policies. Unfair practices will only further alienate discontented staff, who may then use a perceived lack of fairness as a justification for unethical behavior.

New appointments to the tax administration should be based on competence and an assessment of candidates' skills and integrity, taking into account their personal history and work record, including background checks, as appropriate. The quality of managers, tutors, and mentors is a vital element in setting new hires off along the right road. In the absence of adequate selection processes and training, there is a risk that a lack of integrity will develop in new recruits.

A further guiding principle is the need for an appraisal system that provides a basis for rewarding staff according to performance, and not just according to revenue-driven targets. At the root of this system, the tax administration needs to establish an organization-wide set of balanced performance measures, not restricted to monetary collection targets. These measures should flow down to individual officers through an annual performance review, predicated on agreed objectives and targets established at the beginning of the review period.

Professional advancement within the administration must be based exclusively on merit and qualifications, free from political influence and private connections. In any tax administration, there must be a clear career path for officers to permit staff to have a realistic view of potential advancement.

It is equally important that staff have a sense of organizational belonging, with an emphasis on professionalism. If there are staff within the organization that do not have a clear career goal of their own, and are also not interested in the goals of the organization, then integrity is likely to break down. Integrity depends on the objectives and goals of the organization. If these are not met, there will likely be an integrity problem.

Finally, but importantly, and also one of the most difficult administrative barriers to change, is the necessity to compensate tax officials fairly. Paying competitive salaries in the tax administration should be part of any government's anti-corruption strategy in order to remove incentives for corruption. Low base salary levels are frequently cited as a major cause of the spread of corruption in a tax administration. One way this risk can be alleviated is by pegging the salaries of its tax officials to those

for similar jobs in the private sector.<sup>5</sup> This, however, does have consequences across the wider civil service and will prove to be a challenging hurdle to countries in tough economic times.

### *Internal Audit*

The internal audit function should play a dual role on behalf of the head of the tax administration:<sup>6</sup>

- It conducts system audits of all administration offices and operations and advises management on loss prevention and ways to improve efficiency through risk analysis and other means; and
- It is charged with the detection, investigation, and prevention of corrupt practices by employees and taxpayers seeking to corrupt employees.

It is very important, however, that the presence of an internal audit function within the organization is not seen by managers as them being absolved of their responsibility. Indeed, this could become a concern, because the development, maintenance, and enhancement of integrity in the widest sense are essentially a management and operational responsibility. Internal audit supports the management in this responsibility.

Part of the internal audit function is an investigative service that ensures the maintenance of the highest standards of honesty, integrity, loyalty, security and conduct among tax administration employees and that protects its integrity of from attack by outsiders who seek to compromise it through attempted bribery or other illegal or improper acts. This Integrity function has responsibility for planning, developing, conducting, and controlling activities designed to protect the integrity of the tax administration and discharges this responsibility through character and security investigations of employees of the tax administration and through investigations of charges of improper conduct and irregularities on the part of the administration's officials and employees, including:

- Criminal misconduct and serious administrative misconduct by tax administration employees (such as bribery, embezzlement, disclosure or unauthorized use of tax information and conflict of interest);
- Attempts by those outside the organization to corrupt or unlawfully interfere with tax administration operations through bribery, threats or assaults;
- Actions by persons that may affect the safety of Tax Administration personnel;
- Unauthorized disclosure or misuse of tax information;
- Charges against tax practitioners; and
- Extremely confidential investigations of complaints and allegations of misconduct or irregularities concerning high-level officials of the tax administration.

The integrity function also has responsibility for conducting background investigations on tax administration job applicants and appointees and formal investigations of accidents involving tax

---

<sup>5</sup> Chapter 3 discusses the fact that some tax administrations have been able to pay competitive salaries after becoming semi-autonomous revenue authorities.

<sup>6</sup> Internal audit is discussed in Chapter 16.

administration personnel or property. This investigative service would also conduct probes and tests of high-risk integrity areas to detect corruption involving personnel and activities and use the information developed in these probes and tests to alert managers and employees to potential hazards.

### **17.1.3. Transparency and Standards Approach**

Ultimately, the success of any tax system depends on the population's perception that the system is being administered in a fair and equitable manner. In broad terms, fairness in tax administration requires a balance between the rights of taxpayers and the powers of the administration, as well as consistency in the application of the tax laws. The specific rights of taxpayers must be made a part of the tax code or tax laws, as noted in Chapter 3 and in section 17.2.2 below, and such rights must be publicized often by the tax administration in public information documents and activities.

#### ***Transparency and Certainty***

All decisions of the administration must be based on objective rules, regulations, and procedures that must be published, disseminated broadly, and readily available to the public and tax practitioners.

Transparency and certainty in the administration can be achieved by providing the taxpaying public with an understanding of the tax laws and the obligations they entail. The administration is, therefore, expected to provide the services and education taxpayers need to comply with their obligations – user-friendly guides, information brochures, inquiry services, seminars, and interpretation of the tax laws, etc.<sup>7</sup>

The administration must adopt a goal of customer service. To do so means to cultivate its clientele as would a private entity trading in goods or services and dependent on its customers for survival. For customer service to be successful, it must be conducted in an atmosphere devoid of subjective or covert motivation and, therefore, requiring the organization to adhere to the highest degree of integrity in its operations.

#### ***Objections and Appeals***

In any system, there must be checks and balances. Otherwise, the system can be manipulated to the advantage of one person or organization. The work of the tax administration is no exception and must be subject to oversight. The role of the appellate function cannot be underestimated, as this function plays a major part in influencing the public image of the tax administration. The appellate function should allow a taxpayer to take their appeal on a point of law as far as the highest court in the land. This is a guarantee that a fair hearing will be given to all appeals by the taxpayer.<sup>8</sup> Appeal cases put the work of the tax administration under a microscope. The public, in reading these cases, is able to see if the work carried out by the administration was in accordance with the set policies of the organization. The tax administration must be aware that its work is subject to review and that its fairness, transparency, and professionalism will be judged by the public.

---

<sup>7</sup> Taxpayer services are discussed in Chapter 6.

<sup>8</sup> Objections and appeals are discussed in Chapter 11.

All decisions and/or actions of the administration must be subject to complaint, as appropriate. The process whereby complaints from taxpayers are dealt with must be characterized by impartiality and strict adherence to law and regulation.

These external functions are important because they:

- Provide for public transparency, operational feedback, some measure of integrity, and opportunities to correct mistakes;
- Identify potential wrongdoing and lessons to be learned;
- Salvage public reputation;
- Improve client service and integrity; and
- Test operational accountability.

#### **Box 17.1. Tax administration integrity in Georgia**

USAID's anti-corruption efforts in Georgia in the late 1990s began with the establishment of Georgia's Public Defender – an independent institution charged with protecting human rights. The institution received significant USAID funding to bolster the professionalism of its staff. During 2001-2005 USAID's Rule of Law project encouraged access to public information, assisted in drafting procedures for various governmental institutions, and helped non-governmental organizations obtain access to laws. The 2005-2009 USAID Business Climate Reform project provided for significant simplification, standardization, and automation of processes in the tax, commercial law, and business regulation arenas. In the first World Bank/EBRD Enterprise Survey of Georgian companies in 2002, 82.5 percent of the companies reported that they were expected to give "gifts" to tax officials. In 2008 this number was reduced to 8.4 percent.

#### ***Public Outreach Activities***

Once the tax administration has sufficient systems and safeguards in place internally, it makes sense to communicate this fact to the public and get their buy-in for any anti-corruption strategy. This can be done by communicating the steps taken by the administration to reduce the scope for corruption and by encouraging the public to report any instances of inappropriate behavior by tax officials. Conversely, taxpayers should be warned of the consequences for offering a bribe or seeking to corrupt a tax official.

Consideration should also be given to the idea of establishing a telephone number where taxpayers and tax officials can report violations of the Code of Conduct. To be effective, the number should be publicized widely and any complaints properly processed. Complaints should be anonymous. If complaints are not anonymous, feedback should be given to the person who lodged the complaint.

In addition to an employee's daily assigned task, each employee has an important public relations role to play. Not only must each employee act with complete propriety, he/she must also be sure that none of his/her actions can be interpreted otherwise. Courtesy, fairness, and competence must mark all of the tax administration's relationships with the public. The administration's employees must be reasonable and as ready to recognize the rights of citizens as they are to protect the rights of the government. Employees that demonstrate this type of attitude will build public esteem and make a major contribution to realizing maximum voluntary compliance among taxpayers. The effectiveness of

the tax administration in serving the public interest depends upon the extent to which it and its employees hold the confidence and esteem of citizens. This means that each employee must do his/her part to maintain this confidence and esteem by:

- Performing his/her duties conscientiously, courteously, and in the most effective manner possible;
- Conducting himself/herself during and outside working hours in a manner which will bring credit to the tax administration; and
- Observing the spirit, as well as the letter, of the laws and regulations and internal requirements governing employee conduct.

## **17.2. Common Trends**

Fighting corruption and ensuring the integrity of a tax collecting organization has been a challenge since Roman times! Time has taught both parties to the transaction – the taxpayer and the tax administration – that continuous improvement in all steps of the process is the only way that gets them closer to the ideal where the right tax is paid at the right time by the right person. Technology has certainly brought significant change and improvement and most tax administrations have embraced these trends. Other successful trends are included above. The few noted below are those additional areas that will continue to strengthen the fight against corruption for a fair and professional tax administration.

### **17.2.1. The Power of Information**

In a knowledge society, information is power. Enshrining in law the right of the citizen to information provides an incentive to the tax administration to maintain high standards of integrity. This effectively empowers citizens on the one hand and, on the other, instills fear in the minds of wayward tax administrations regarding any wrongdoing on their part. Many countries have now enacted or adopted something along the lines of a Freedom of Information Act. Such a law empowers citizens to demand information from the government about the details of any action taken or not taken. This type of legislation has forced many tax administrations to promote greater transparency and accountability in their operations.

### **17.2.2. Citizen / Taxpayer Charters**

Even more specific to the tax administration is the adoption of a Citizens or Taxpayers Charter, which is meant to clearly articulate not only the powers and responsibilities of the tax administration, but also the rights and obligations of the taxpayer. It is, in other words, a universal contract between the tax administration and the taxpaying public. The Charter spells out well-defined and objective criteria for various tax actions, which impact the public on a regular basis, so as to encourage fairness, accountability, and efficiency in the tax administration's operations. The Charter may also mandate that the tax administration adhere to time limits for certain actions – e.g., responses to written communications must be sent within 15 days, complaints and grievances must be redressed within 30 days, tax refunds must be issued within 30 days of determination, etc.

### 17.2.3. Ombudsman

Establishing an (Tax) Ombudsman office facilitates additional oversight of tax officials' behavior. An Ombudsman is a trusted intermediary between the state and its citizens. An Ombudsman office can be set up to handle complaints about or to the state, but must be established in a way that the taxpayer feels comfortable that individuals assigned to this position are independent of the state and the tax administration. A wholly independent office of the Ombudsman affords the opportunity to the general public to file complaints of harassment or corruption, with the reassurance that any genuine complaint will be promptly redressed.

### 17.3. Tax Administration Maturity

As in other chapters, this section presents a four-level model to allow interested officials to self-assess the general level of maturity of the tax administration with regards to issues of integrity, using "rules of thumb" to assess strengths and weaknesses. Of course, a specific tax administration may find that it fits the characteristics of several of the levels below. In this case, the tax administration may be in transition from one maturity level to another.

#### *Integrity: Maturity Level 1*

Key word: "Opaque"

- Relationships with public and private sector institutions are lukewarm, at best, and even border on hostility in many cases.
- There is a substantial lack of legal/regulatory institutions, modern tax policy, civil service rules and regulations for attracting and retaining qualified staff, international accounting and professional standards, and modern financial and banking standards and institutions.
- Significant evidence (albeit much hearsay) points to endemic corruption across all levels and aspects of tax administration, and particularly in the audit function.
- There are no formal complaints made by taxpayers against the administration, and there are no investigations of corrupt practice.
- The process of appointing staff to the tax administration is opaque.
- The tax dispute resolution system is not formalized and, therefore, not effective or objective.

#### *Integrity: Maturity Level 2*

Key word: "Hot-and-cold"

- "Hot-and-cold" efforts by top-level officials to establish good relationships with some public and private sector groups – particularly with Customs and public accountants – are initiated but lack coherence and stability.
- There is still a substantial lack of legal/regulatory institutions, modern tax policy, civil service rules and regulations for attracting and retaining qualified staff, international accounting and professional standards, and modern financial and banking standards and institutions.



- Taxpayers and the public remain wary of complaining against the tax administration and its employees despite a more open approach by the latter.
- A rare scapegoat for government corruption is investigated, convicted, and punished.
- The tax dispute resolution system is still not formalized and, therefore, not effective or objective.

### *Integrity: Maturity Level 3*

Key word: "Comfortable"

- Relationships with public and private sector groups are usually positive – e.g., memoranda of understanding with Customs for exchange of data are generally successful, as are forums for public accounting and Chamber of Commerce groups, etc. However, there are exceptions, such as less than cordial relationships with the judiciary or other groups.
- There is a fair degree of development of legal/regulatory institutions, modern tax policy, civil service rules and regulations for attracting and retaining qualified staff, international accounting and professional standards, and modern financial and banking standards and institutions;
- The tax administration has started to embrace many technological advances used in the private sector, such as electronic commerce, interactive telephone systems, and the capture of data by the scanning or imaging of paper documents.
- A formal Code of Conduct/Ethics has been embraced by the tax administration, and staff have undergone one-off ethics training.
- Taxpayers feel comfortable making a complaint directly to the tax administration against the organization or an official without fear of reprisal.
- An effective internal audit function is responsible for investigating allegations of corrupt practice.
- An effective, fair, and objective tax dispute resolution system is in operation.

### *Integrity: Maturity Level 4*

Key word: "Ethical"

- Relationships with public and private sector groups are very positive – e.g., memoranda of understanding with Customs for exchange of data are very successful, as are forums for public accounting and Chamber of Commerce groups, etc.
- There is a high degree of development of legal/regulatory institutions, modern tax policy, civil service rules and regulations for attracting and retaining qualified staff, international accounting and professional standards, and modern financial and banking standards and institutions.
- The tax administration regularly uses technological advances, such as electronic commerce, interactive telephone systems, and the capture of data by the scanning or imaging of paper documents.
- Tax administration staff receive ongoing ethics training, and senior officials are required to file annual income and assets statements.

- An Office of the Ombudsman has responsibility to investigate complaints against the tax administration.
- An effective, fair, and objective tax dispute resolution system is in operation.

## 17.4. Latin America and the Caribbean

Although there has been much focus on tax administration reform in Latin America and the Caribbean (LAC) over the past decade, it has primarily emphasized the need to raise revenues. With budgetary constraints, as in many other countries around the world, and with much focus on audit by external governmental bodies as discussed in Chapter 17 (Internal Audit), it is not surprising that "integrity" is a relatively new concern for most tax administrations in LAC. Thus, with respect to the integrity enabling principles described above, LAC countries vary greatly. The following are examples:

- *Administrative burden of paying taxes:* According to the 2013 World Bank's Doing Business survey<sup>9</sup>, LAC countries are quite evenly distributed with respect to "paying taxes", with Chile ranking 36<sup>th</sup>, Venezuela ranking 185<sup>th</sup>, and other countries ranking throughout the interval. Caribbean states average in the middle with a rank of 100. Although countries have focused much on simplification, including through presumptive regimes, much of it has resulted in tax base erosion.
- *Organizational structure and employee conditions:* It is clear that many LAC countries (over 80 percent<sup>10</sup>) have appreciated the benefits of and already moved to a functional organizational structure, which is noted above as one of the fundamental approaches to reduce the scope for corrupt practice. Interestingly, as was noted in Chapter 3, in recent years, LAC countries have been on the forefront of establishing semi-autonomous revenue authorities (SARAs).<sup>11</sup> At a recent conference, the IMF listed a number of reasons that are typically provided to justify SARAs, including increased efficiency, increased pay, and reduced corruption.<sup>12</sup> Again, these latter two justifications are moves to improve the overall integrity of the organization. However, the IMF also noted that, although SARAs tend to increase public confidence in the tax administration and may contribute to better pay of tax administration staff, there has not been conclusive evidence of other improvements.
- *Automation:* LAC countries have also introduced new technology that can help reduce the scope for corruption. Computerization is another fundamental approach to ensuring integrity, and there has been a lot of focus recently on automation through IT in LAC countries as discussed in Chapter 12, with many successes and a number of failures. However, in addition to being costly, simply automating tax administration processes is insufficient. Without improving in the other key areas noted above, LAC countries are unlikely to advance on the integrity front due to the use of IT alone. As evidenced by CIAT analysis,<sup>13</sup> taxpayers in many LAC countries still have

<sup>9</sup> World Bank (2013), p. 52.

<sup>10</sup> USAID's Collecting Taxes Database, [egateg.usaid.gov/collecting-taxes](http://egateg.usaid.gov/collecting-taxes).

<sup>11</sup> Mann (2004), p. 1.

<sup>12</sup> Kloeden et al. (2012), p. 6.

<sup>13</sup> Inter-American Center of Tax Administrations (CIAT) et al. (2012), para. 246.

limited access to technology. Furthermore, as discussed in the World Bank's Doing Business survey, rather than advancing simplification, a number of LAC countries have recently introduced reforms that add complexity to the tax system, which is a major impediment to reaping the benefits of automation.

- *Code of Conduct*: While some countries (e.g., Argentina, Brazil, and Mexico) have adopted some service delivery standards, many others have not. In addition, in some cases (Argentina), such standards are not made public.
- *Promoting integrity*: Brazil's federal tax authority, the Secretariat of Federal Revenue, has been a leader in enhancing public sector integrity, not only in Brazil, but across North and South America. For example, it participated within CIAT in the development of a manual on internal audit in tax administration (together with Argentina, Bolivia, Chile, Costa Rica, Spain and the United States) and a model code of conduct for tax officials (together with Argentina, Canada, Peru, Spain, and Trinidad and Tobago). These activities are considered by senior Brazilian federal tax officials to have positively shaped practices within their own organizational management systems.

Finally, it should be noted that, while the donor community has financed a wide variety of programs in LAC aimed at improving public sector management and promoting greater accountability and transparency in government, there is limited empirical evidence about the degree of integrity in developing countries.

#### Box 17.2. Tax administration integrity in Brazil<sup>14</sup>

Brazil's federal tax authority, the Secretariat of Federal Revenue (*Secretariat*), has been a leader in enhancing public sector integrity in Brazil. This reflects a growing awareness in Brazil for the need to enhance integrity, and not just the efficiency of revenue collection, as part of efforts to modernize the federal tax administration and promote fiscal legitimacy. Enhancing integrity in Brazil's federal tax administration can support formal business activities, investment, and economic growth. Accordingly, the Secretariat is focusing its future integrity enhancements across three main strands: (1) the promotion of transparency and taxpayer rights, (2) implementing a risk-based approach to internal control activities, and (3) embedding high standards of conduct within the organization.

With a view to promoting transparency and taxpayer rights, the Secretariat plans to extend the information, data, and reach of its Federal Revenue Transparency Page and its Transparency Portal. It is also undertaking a wider consultation exercise with a view to enhancing its current Citizens Charter, as well as taking steps to publish the results of the qualitative and quantitative service standards set out in the Charter.

The Secretariat is also examining how it approaches risks to the organization by, initially, centralizing responsibility for conducting operational risk identification within the Internal Audit Unit (IAU). By mapping the current business processes, the Secretariat will be able to better identify the causes and effects of the operational risks identified. These actions will allow the Secretariat's IAU to significantly improve its operational risk management.

The Secretariat has identified that ethics and integrity training is not a 'one-off' solution and that its staff requires periodic reinforcement of the standards of conduct expected for federal tax employees. It also plans to establish a mechanism to better evaluate and monitor these standards.

<sup>14</sup> OECD (2011).

## 17.5. Key Benchmarks and Guidelines

In general, the integrity of the tax administration will mirror the legislative, administrative, and social change of the country. As a country's governance structure matures and improves, the integrity of the tax administration will likely follow the same path. In fact, in some developing countries, tax administrations lead all government agencies in status and are viewed by the general public as the most professional, ethical, and corruption-free.

The sub-sections of this chapter have provided some detail on the conditions and infrastructure that should be in place to reduce the opportunity for corrupt practice as much as possible. However, systems will fail in the absence of proper leadership across the organization.

The most important factor in bringing about the necessary improvements in all aspects of integrity is the quality of leadership provided by all managers. Senior management should demonstrate commitment and firm leadership in the drive to create and maintain integrity within their organization, and they should give out a consistent message to their staff – in other words 'practice what they preach.' There is always a risk that senior management will become too distant, devoting too much time to administration or strategy when their greatest value is in working closely with operational staff to ensure that they maintain high standards of integrity in their work. For leadership to be effective, greater efforts are required to close the communication gap between all levels of management, and senior management should take every opportunity to ensure they are visible and accessible, such as by making regular visits to the workplace.

The following points summarize the key features and control and performance management functions that impact directly on integrity and affect public confidence, most of which have been mentioned above in greater detail. These present some key areas which should be visible and where further inquiry may be warranted to test performance of the administration and to pinpoint areas for improvement:

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

- Procedures for reporting or raising concerns, including internal grievances and "whistleblowing";
- Discipline and criminal referral policies and procedures; and
- Governance and effective internal investigation arrangements.

## REFERENCES:

Inter-American Center for Tax Administrations (CIAT), IMF Regional Office for Technical Assistance, Panama and the Dominican Republic (CAPTAC-DR), and the Inter-American Development Bank (2012), "Estado de La Administración Tributaria en América Latina: 2006 – 2010".

Kloeden, David and Patrick Fossat (2012), "Revenue Administration Reforms in Africa since the early 1990s...", presentation to the Revenue Administration Reform and Technical Assistance Workshop, Tax Policy and Administration Topical Trust Fund, International Monetary Fund.

Mann, Arthur J. (2004), "Are Semi-Autonomous Revenue Authorities the Answer to Tax Administration Problems in Developing Countries? – A Practical Guide", USAID.

OECD (2011), "Public Sector Integrity in Brazil. Case Study 1. Secretariat of Federal Revenue, Federal Ministry of Finance", <http://www.oecd.org/gov/ethics/49019867.pdf>.

World Bank (2013), "Doing Business 2013. Regional Profile: Latin America. Smarter Regulations for Small and Medium-Size Enterprises", The International Bank for Reconstruction and Development / The World Bank.