OCCASIONAL PAPER 215

Improving Large Taxpayers' Compliance

A Review of Country Experience

By a Staff Team led by Katherine Baer

INTERNATIONAL MONETARY FUND
Washington DC
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The following symbols have been used throughout this paper:

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 2000–01 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 2000/01) to indicate a fiscal (financial) year.

"n.a." means not applicable.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

Abbreviations

AFIP	Administración Federal de Impuestos (Federal Tax Administration)
APEH	Adó-és Pénzügyi Ellenőrzési Hivatal (Hungarian Tax Administration)
ATO	Australian Tax Office
BIR	Bureau of Internal Revenue
CDIGE	Centre des Impôts des Grandes Enterprises (Large Enterprise Tax Center)
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CIT	Corporate income tax
DGI	Direction Générale des Impôts (General Tax Directorate)
DGR	Dirección General de Rentas (General Revenue Directorate)
ETS	Excise Taxpayer Service
FAD	Fiscal Affairs Department
GST	Goods and services tax
GTD	General Tax Department
HMC&E	Her Majesty's Customs and Excise
IR	Inland Revenue
IRD	Inland Revenue Department
IRS	Internal Revenue Service
KRA	Kenya Revenue Authority
LB&I	Large Business and International
LMSB	Large and Mid-Size Business Division
LTU	Large taxpayer unit
OECD	Organization for Economic Cooperation and Development
PAYE	Pay-as-you-earn
PRICOS	Unidades de Principales Contribuyentes (Large Taxpayer Units)
SAT	Servicio de Administración Tributaria (Tax Administration Service)
SIRAT	Sistema Integrado de Recaudación y Administración Tributaria (Integrated System for Tax Collection and Administration)
SNII	Servicio Nacional de Impuestos Internos (National Domestic Tax Service)
SRI	Servicio de Rentas Internas (Domestic Revenue Service)
SUNAT	Superintendencia Nacional de Administración Tributaria (National Superintendency for Tax Administration)
URA	Uganda Revenue Authority
VAT	Value-added tax

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Preface

A central role of the IMF is to help member countries reduce the risks of macroeconomic instability, particularly by strengthening their public sector institutions. To this end, the Fiscal Affairs Department (FAD) provides technical assistance to member countries to strengthen tax revenue performance by improving the organization and operations of the tax administration. Much work has been undertaken by FAD analyzing the requirements for and impact of tax administration reform in developing countries. One area, however, that has not been reviewed at the IMF—or elsewhere—is the growing focus on different segments of the taxpayer population, including the large taxpayers, as a way to encourage greater stability in public revenue flows, improve the effectiveness and efficiency of tax administration, and introduce innovation in the public sector (e.g., new organization, procedures, and systems in the tax department, as well as improved services to taxpayers).

Based on a sample of about 40 countries, this paper provides an overview of country practices in terms of the organization, systems, and procedures used by tax administrations to monitor the compliance of the large taxpayers. The paper also reviews the effectiveness of large taxpayer operations in selected developing and transition countries where the IMF has recommended their establishment.

There are, of course, limits to this kind of analysis, given the complexity of measuring taxpayer compliance, the shortcomings of the data reported by tax administrations in many developing and transition countries, and the short time series available for several countries that have only recently established specialized large taxpayer operations. Certainly this review is not intended to be a handbook on how to set up a large taxpayer unit. The analysis does, however, provide a sense of the major challenges facing developing and transition countries in the process of modernizing their tax administrations, particularly for large taxpayers, as well as some of the approaches being taken to address these challenges.

This paper was prepared by an International Monetary Fund staff team led by Katherine Baer and comprising Olivier Benon and Juan Toro. The authors note that the paper benefited from the review and comments of many colleagues, including Jean-Paul Bodin, Isaias Coelho, John Crotty, Paulo dos Santos, Richard Highfield, Seth Terkper, Nobuhiro Tsunoda, Koenraad van der Heeden, and James Walsh. The authors also wish to thank Milka Casanegra de Jantscher, Michael Keen, Carlos Silvani, Emil Sunley, Günther Taube, and Teresa Ter-Minassian for their insightful comments and suggestions, and Gail Berre, Joan Gibson, and Ann Robertson, who edited the paper for publication.

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Overview

Beginning in the 1980s, the IMF has recommended that member countries facing revenue crises and looking to strengthen tax administration establish large taxpayer units (LTUs) to increase control over the largest taxpayers[1] and improve large taxpayers' compliance in the short and medium term.[2]

This paper provides an overview of the organization, systems, and procedures used by tax administrations in about 40 countries to monitor the compliance of the large taxpayers. It also reviews the effectiveness of large taxpayer operations in selected developing and transition countries where the IMF has recommended their establishment.[3] Information provided by tax officials in the countries surveyed, as well as IMF staff and IMF experts' views on the effectiveness of large taxpayer operations in these countries, form the basis for this discussion.

Case analysis indicates that countries may gain significant benefits from setting up special operations to control the compliance of the largest taxpayers. It also shows that certain risks need to be addressed. Clearly, the experience of many developing and transition countries shows that setting up special operations to control large taxpayer compliance has resulted in increased compliance and more effective tax administration overall. Such special operations have focused tax administration efforts on relatively few taxpayers that account for a large percent of total tax collection. Many of the countries surveyed reported that establishing an LTU helped them address major operational weaknesses in tax administration and improve core tax administration functions. In addition, in many countries the LTU has been a pilot for the tax administration to test reforms later extended to the rest of the taxpayers. These include the self-assessment of taxpayer liabilities, single taxpayer master files, unique taxpayer identification numbers, an organizational structure based on the main tax administration functions, electronic filing, and new computerized information systems.

The trend to establish LTUs or organizational arrangements based on large taxpayers in developing and transition countries is similar to efforts in developed countries (e.g., Australia, France, the Netherlands, New Zealand, the United Kingdom, the United States). Tax administrations in these countries are reorganizing their operations around segments of the taxpayer population (especially according to taxpayer size) because the various segments require different strategies to manage their tax compliance and also because these distinct segments present different revenue risks.

At the same time, risks are associated with establishing an LTU that tax administrators and other public finance officials should consider. If the LTU is only partly established,[4] it will not reach its potential to improve the operations of the tax administration and increase large taxpayer compliance. Thus, not only is an important opportunity for reform lost, but the LTU loses credibility as a vehicle for modernizing tax administration. Unfortunately, there are several such examples among the transition countries.

Sustaining the reforms introduced through the LTU, and extending the modernization to the entire tax administration—including the tax offices dealing with small and medium-size taxpayers—have been major issues for several countries. Without consistent political and management support, as well as the needed financing and staff, LTUs that were initially successful can succumb to the same problems that existed before their implementation.

[1]Taxpayers that make significant tax payments and that account for a large percent of total tax collection—50 percent or more.

[2]Operations to control the compliance of the large taxpayers vary according to the type of organizational structure of each tax administration and may be referred to as large taxpayer units, large taxpayer departments (LTDs), large taxpayer offices (LTOs), and so forth.

[3]The effectiveness of tax administration is measured by the degree of taxpayers' compliance with the tax laws (e.g., the tax administration's capacity to enforce the tax laws), while efficiency reflects the actual costs of tax administration.

[4]If, for example, not all large taxpayers are administered by the LTU or system of LTUs, the LTU does not perform all major tax administration functions, the LTU lacks appropriate staffing or resources, and so forth.

Further risks specific to the operation of the LTU include overemphasizing the administration of the large taxpayers and ignoring the medium-size and small taxpayers; failing to provide specific types of controls for the large taxpayers (e.g., those to ensure compliance with return filing and payment obligations); assigning too many taxpayers to the LTU, thereby rendering compliance management ineffective; and allowing irregular or corrupt practices by LTU officials who are not properly supervised. Related to this, a major challenge for tax administrations setting up an LTU is to attract and retain staff of sufficient caliber to audit complex operations, provide large taxpayers with accurate and up-to-date information, and create a professional work environment that discourages tax officials from engaging in corrupt practices.

Finally, to gauge the effectiveness of the LTU's operations and changes in large taxpayer compliance, tax administrations must identify and compile performance indicators, which are the basis for effective management reporting.

Against this background and from the IMF's experience in assisting member countries to set up and manage large taxpayer compliance operations, important lessons have been learned.

- For the LTU to be effective and for the large taxpayers' compliance to improve significantly, the government must fully commit to setting up the LTU, providing it with the necessary resources (staffing, physical infrastructure, computers, etc.), and supporting auditing and enforced collection for the largest taxpayers.
- The long-term effectiveness and credibility of the LTU depends on the government's ability to incorporate the LTU into a broader tax administration reform. This is an area where the IMF could improve follow-up of the initial LTU reform effort.
- The LTU needs continued reform and modernization, like the rest of the tax administration, to remain effective and to keep up with changes in the economy and the taxpayer population.
- For an LTU to work properly, it must meet certain minimum requirements (many of which are also applicable to the overall tax administration), including
  - A sound legal framework;
  - Clear and simple criteria for selecting large taxpayers;
  - Standard and transparent procedures;
  - The administration of all the large taxpayers by the LTU;
  - The administration of all national level domestic taxes by the LTU;
  - LTU performance of all core tax administration functions;
  - Clear reporting lines between the LTU and the headquarters office;
  - Appropriate job grading and remuneration of LTU staff;
  - Effective LTU staff training; and
  - Identification and regular compilation of key performance indicators.
- Even if these conditions are met, the establishment of an LTU cannot strengthen large taxpayer compliance and generate added revenue when there is prolonged downturn in the economy.
- The experience of the transition countries with LTUs suggests that a positive relationship exists between the successful implementation of an LTU and progress in macroeconomic stabilization and other structural reforms, including tax policy reforms.
- The most effective LTU operations are based on strong, centralized supervision of operations and limited organizational units. In contrast, the least effective LTUs seem to be those that are highly decentralized.

I Introduction

Objectives of the Study

Many tax administrations have established special systems to monitor their large taxpayers. In the 1950s and 1960s, several countries in the Organization for Economic Cooperation and Development (OECD) introduced special tax audit operations for large corporations. A more recent trend, especially in developing and transition countries, has been to set up full-fledged large taxpayer units that are responsible for most tax administration functions, including taxpayer services, collection, enforcement of tax arrears, and audit. Some developed countries (Australia, the Netherlands, New Zealand, the United Kingdom, and the United States) have followed a similar policy and have reorganized their tax administrations around different types of taxpayers, or taxpayer segments.[5] This has resulted in a restructuring of the tax administration from one based on functions (e.g., returns and payment processing, audit, enforcement of arrears, appeals, etc.) to one centered on individuals, small and medium-size businesses, and large corporations.[6]

This study provides an overview of the role, structure, and functions of large taxpayer operations in about 40 countries.[7] Using survey responses and reviews of large taxpayer units' performance by FAD tax administration staff and experts in the field, the study also reviews the effectiveness of large taxpayer units in selected developing and transition countries.

[5]The United Kingdom has two separate tax administration departments, each with its own large taxpayer control operation. Her Majesty's Customs and Excise (HMC&E) is reponsible for administering the indirect taxes, and Inland Revenue (IR) administers the direct taxes. Each department has policy responsibility for its own tax work. Both HMC&E and Inland Revenue are non-ministerial government departments that report to HM treasury ministers.

[6]However, each of these groupings, or taxpayer segments, has continued to be functionally based.

[7]Includes about 30 developed and transition countries, and 7 developed countries.

Methodology Used

The study is based on a three-part survey sent to the directors of tax administrations in about 40 developing, transition, and developed countries. The first part requested information about the LTU's organization and functions; the second, detailed data on LTU performance (collection, compliance, audit); and the third, a general evaluation of the LTU's effectiveness.[8] In countries where FAD resident experts have assisted, or currently are assisting, with setting up an LTU or improving its operations, the experts helped determine the accuracy of the survey responses and provided more information as needed. This study also draws on other recent FAD studies on large taxpayer units.[9] Table 1.1 lists existing LTUs and those to be established soon.

Variety of Large Taxpayer Monitoring Operations

Developing, transition, and developed countries follow different approaches to control their large taxpayers, reflecting the differences in the large taxpayer population among countries (e.g., smaller countries have fewer large taxpayers, while larger, more developed countries have many more, spanning a broad range of sectors of economic activity with more complex operations). The variety in operations also reflects differences in the organization of tax administrations across countries. Box 1.1 briefly describes the three main organizational structures characteristic of tax administrations around the world.

In developing and transition countries, large taxpayer compliance operations vary widely in structure, staffing, and functions. For example, in some countries, large taxpayer offices carry out all criti-

[8]Appendix II contains a copy of the survey and a list of countries that responded to the survey. The list indicates the countries that provided complete responses, partial responses, or no response. Surveys were issued in English, French, Spanish, and Russian.

[9]See Bodin (2000) and dos Santos (1994).

Table 1.1. Spread of Large Taxpayer Units

	Countries	Functions[1]	Date of Implementation	IMF Technical Assistance[2]
Central and Eastern European Countries	Albania		1998	Yes
	Bulgaria		1997	Yes
	Hungary		1996	Yes
Baltics, the Commonwealth of Independent States,[3] and others	Armenia	Limited to audit	1995	Yes
	Azerbaijan		1997	Yes
	Georgia		1996	Yes
	Latvia		1995	Yes
	Moldova	Limited to audit and enforcement	1998	Yes
	Mongolia		2000	Yes
	Russia		1998	Yes
	Ukraine		1999	Yes
Africa	Benin		1990	Yes
	Burkina Faso		1995	Yes
	Cameroon		1998	Yes
	Côte d'Ivoire		1997	Yes
	Gabon		1996	Yes
	Guinea (Conakry)		1996	Yes
	Kenya	Limited to audit and arrears collection	1998	Yes
	Madagascar		1996	Yes
	Mali		1994	Yes
	Niger		1997	Yes
	Togo		1995	Yes
	Uganda		1998	Yes
Asia and Pacific	Bangladesh		2001	Yes
	Lao P.D.R.		1998	Yes
	Philippines		1999	Yes
	Sri Lanka		1995	Yes
	Cambodia		1994	Yes
Latin America	Argentina		1974	Yes
	Bolivia		1988	Yes
	Brazil	Limited to audit		
	Colombia		1988	No
	Ecuador		1995	Yes
	El Salvador		1992	Yes
	Haiti		1995	Yes
	Mexico		1999	Yes
	Nicaragua		1993	Yes
	Paraguay		1993	Yes
	Peru		1992	Yes
	Uruguay	Limited to collection	1990	Yes
	Venezuela, República Bolivariana de		1995	Yes
Middle East	Algeria		2001	Yes
	Iran, I. R. of		2001	Yes
	Morocco		2000	Yes
	Saudi Arabia		2000	Yes
	Yemen		2001	
Other	Australia[4]		1994	
	Austria	Limited to audit		
	Belgium	Limited to audit		
	Canada	Limited to audit		
	France[5]	Limited to audit		
	Japan	Limited to audit		
	Netherlands		1990	
	New Zealand	Initially limited to audit, then expanded	1994	

Table 1.1 *(concluded)*

Countries	Functions[1]	Date of Implementation	IMF Technical Assistance[2]
Spain		1983 (audit), 1995	
United Kingdom	One unit for indirect taxes, audit only	1984	
	One unit for direct taxes	1997	
United States[6]		1975	

[1]Full-fledged LTU unless otherwise indicated.
[2]Technical assistance varied depending on each country's requirements.
[3]The Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Takijistan, Turkmenistan, Ukraine, Uzbekistan).
[4]The Australian Tax Office had a large taxpayer audit program starting in 1987.
[5]The French tax administration established a large taxpayer audit operation in the early 1960s, and is planning to establish a full-fledged LTU in the near future.
[6]The U.S. Internal Revenue Service (IRS) had a Large Case Audit Program prior to its recent reorganization in 2000, when it established a formal Large and Mid-Size Business Division.

cal tax administration functions and focus exclusively on controlling the compliance of the largest taxpayers. In others, large taxpayer operations are more limited, focusing only on auditing or collecting arrears of the largest taxpayers. Some countries have a single large taxpayer unit. Other countries place large taxpayer units (or departments) in the largest cities, where large taxpayers are normally concentrated, while regional or local tax offices administer large taxpayers in the rest of the country. In some countries, large taxpayer operations are supervised by the director of the tax administration. In others, they are supervised by a special headquarters office, or by the regional tax offices. Likewise, tax administration procedures followed by LTUs vary from country to country. The number of staff and qualifications of personnel in large taxpayer units vary significantly across countries depending on the size of the large taxpayer population, the complexity of large taxpayers' business operations, and the scope of work carried out by the large taxpayer unit.

Developed countries also follow different models for their large taxpayer units: some countries have set up operations to focus only on auditing the large taxpayers. Other countries (e.g., Australia, the Netherlands, New Zealand, and the United States) are moving toward organizing the entire tax administration according to different taxpayer segments, with one important segment being the large or large and medium-sized taxpayers. Further, differences exist among these newer "segment-based" models. In sum, while discussing country experiences in monitoring large taxpayers, it is critical to keep in mind that there is a wide variety of organizational models, systems, and procedures. Because of these differences, cross-country comparisons should be approached with caution.

Main Reasons for the Spread of LTUs in Developing and Transition Countries

Securing Revenue and Improving Management of Arrears

In most developing countries and transition economies, the most pressing reasons for establishing a large taxpayer operation have been the need to secure tax revenue (i.e., either ensuring that tax revenue does not fall below a certain level, or mobilizing more tax revenue, primarily by reducing nonfiling and nonpayment) and to introduce basic systems to control delinquent taxpayers. In Latin America, Argentina was the first country to establish an LTU, in 1974. Subsequently, in the 1980s several Latin American countries organized special units to control large taxpayers—primarily to gain better control over the main sources of government revenue. Although they emphasized collection, most of the LTUs from that period included (as is now recommended) all the main tax administration functions (e.g., return processing, enforcement of tax arrears, and audit), but some did not assign high priority to some functions at the outset, for example, audit. Only one of the LTUs that was created during that period—in Uruguay—focuses exclu-

Box 1.1. Types of Organizational Structures for Tax Administration[1]

Tax administrations around the world are commonly organized according to type of tax, administrative function, or type of taxpayer. Most tax administrations resemble one type of structure more than the others; however, some reflect a combination.

The three main organizational structures are as follows:

By type of tax: One of the oldest and most common organizational structures is the tax-based model under which separate departments are set up to administer specific types of taxes. The main distinguishing feature of this approach is that each tax department contains virtually all of the functions required to administer the taxes for which it is responsible.

By function: In this structure, staff are grouped around an organization's essential functions or work processes. For tax administrations, the model is typically applied by establishing a separate department to perform each major administrative function (processing tax returns and payments, auditing taxpayers, and collecting arrears) over the full range of taxes. Under this arrangement, each functional department is headed by a manager who is in a direct line of authority to the tax administration's chief executive officer.

By type of taxpayer: In this structure—the client-based model—staff are assigned to units that focus on specific groups of customers. In recent years, client-based organizational structures have become increasingly popular in both the public and private sectors. Some tax administrations have implemented this model by organizing their staff into departments responsible for the full range of administrative services to designated groups of taxpayers. The groups are frequently based on the taxpayer's scale of operation, form of ownership, or economic sector.

[1]For more on this topic, see Vehorn and Brondolo (1999).

sively on processing tax returns and payments (see Table 1.1).

Establishing an LTU helps secure tax revenue because in most countries, especially developing and transition countries, a few taxpayers account for a large percent of total tax collection. In such countries, the largest share of revenue comes from those that pay not only their taxes but also other taxpayers' taxes through withholding systems (see Table 1.2).[10]

In many of these countries, frequent delays in detecting large taxpayer noncompliance have often placed tax revenue at risk. When large arrears have gone undetected for several months or even years, experience has shown that they are almost uncollectible.

Using the LTU as Pilot for Reform

Some countries (e.g., Bolivia, El Salvador, Hungary, Uganda) have adopted LTUs as pilot projects to introduce a new organizational structure, systems, and procedures for tax administration. Several countries have been able to extend reforms introduced via the LTUs to the rest of the tax administration. These reforms have included new organizational principles (often function based), new taxpayer identification systems, new collection procedures (e.g., in the early 1990s, joint filing and payment procedures[11] through banks, or, more recently, electronic filing and payment procedures), and new computerized information systems.

Improving Audit

In developed countries, one of the main reasons for establishing specialized large taxpayer operations has been to improve the audit of the largest taxpayers. As Table 1.1 shows, most large taxpayer operations established in industrialized countries before 1990 were devoted to audit exclusively. In EU countries, for example, the initial reason for establishing a special department to deal with the largest taxpayers was the need to improve audit programs, especially after introduction of the value-added tax (VAT) in the 1960s–70s. In Australia and the United States, large taxpayer operations first focused on auditing large taxpayers' compliance with the corporate income tax (CIT).

Clearly, audits of large, often multinational corporations need special programs and highly skilled officials, insofar as these audits often involve analyzing complex operations and transactions among

[10]In France, for example, 15,000 enterprises (0.1 percent of the total) reported 55 percent of the total turnover and 35 percent of the base for the corporate income tax in 1999. In Australia, for the 1998 income tax year, the 5 percent of companies that are covered by the LTU paid 74 percent of total corporate tax collection.

[11]"Joint filing and payment" refers to the simultaneous submission of tax returns and payments of taxes.

Table 1.2. Concentration of Tax Collection in Selected Countries, 1999

Country	Large Taxpayers at National Level: Number	Large Taxpayers at National Level: Percent of total taxpayers	Percent of Total Domestic Tax Collection[1]
Central and Eastern European Countries			
Bulgaria	842	0.1	51.4
Hungary	369	0.03	42.1[2]
Baltics and the Commonwealth of Independent States			
Azerbaijan	1,040	1.0	63.7
Latvia	215	0.5	28.7[2]
Moldova	626	1.6	45.8[2]
Tajikistan	185	0.3	43.3
Africa			
Benin	1,512	1.5	92.0
Burkina Faso	1,573	2.2	83.7
Cameroon	1,205	0.8	42.2
Kenya	600	0.4	61.0
Togo	581	2.4	81.4
Uganda	317	2.1	35.7
Asia and Pacific			
Mongolia	46	0.2	54.3
Philippines	833	0.2	36.0
Sri Lanka	1,012	0.2	27.6
Latin America			
Argentina	3,665	0.1	49.1[2]
Bolivia	5,578	2.5	60.3
Colombia	5,308	0.4	57.0
Ecuador	3,900	0.5	79.3
El Salvador	1,500	0.7	38.0
Mexico	14,588	0.2	85.1
Paraguay	3,532	1.6	44.2
Peru	2,450	0.9	64.9[2]
Uruguay	13,481	...	84.2
Venezuela, República Bolivariana de	2,356	1.0	47.1
Other			
Australia	30,958	0.3	13.4[3]
France	17,000	0.1	45.0[4]
Japan	36,815	0.2	13.8
Netherlands	15,000	1.7[5]	60.6
New Zealand	12,500	0.7	25.0
Spain	1,923	0.1	40.2
United Kingdom[6]	2,200	0.1	22.2
United Kingdom[7]	5,000[8]	0.3	...[9]
United States	227,000	0.2	27.0[10]

[1]Excludes international trade taxes and social security contributions, unless otherwise indicated.
[2]Includes social security contributions.
[3]CIT only. The Large Taxpayer and International Business segment in the Australian Tax Office does not have responsibility for withholding taxes, nor for the sales tax which was abolished in 2000 and replaced by the goods and services tax (GST).
[4]CIT only. The largest 17,000 taxpayers represent 30 percent of total VAT collections.
[5]Large taxpayers as a percent of total number of registered corporate taxpayers.
[6]Represents only indirect taxes, administered by HMC&E.
[7]Represents only direct taxes, administered by IR.
[8]2,000 corporate taxpayers and 3,000 employers.
[9]Large taxpayers account for more than 65 percent of corporate tax yield and over 50 percent of the yield from the pay-as-you-earn and national insurance contributions.
[10]Includes CIT, employment tax, excise tax, etc. The Large and Mid-Size Business Division (LMSB) of the IRS is not responsible for collecting withholding taxes.

Box 1.2. Large Taxpayer Compliance Operations in the Netherlands

Directorate General for Tax and Customs Administration: Large Corporates Division

Background: In January 1990, as part of a comprehensive reform, the Directorate General for Tax and Customs Administration adopted an organizational structure based principally on "*taxpayer segments*" (i.e., large corporate taxpayers, small business taxpayers, and private taxpayers).

Role: The large corporate taxpayer division is responsible for all major tax administration functions vis-à-vis large corporate taxpayers, including monitoring compliance with their filing and payment obligations, auditing, enforcing collection of arrears, and providing taxpayer services. The concentration of knowledge about the large corporate taxpayers ("account management") has made the tax and customs administration a good counterpart for companies and tax advisers, giving the companies the opportunity to talk with the tax administration and customs about problems in advance. In addition, the administration's establishment of special target groups for banking, insurance, oil, and gas companies, as well as advance rulings, has helped ensure the compliance of the large corporate taxpayers. To report yearly on taxpayer compliance, the administration uses a "fiscal monitor." The success rate for the large corporate taxpayer department, where special value is placed on "knowing the business," is higher than for the other departments in the organization.

Current organizational arrangements: The large corporates division consists of a headquarters office, which supervises all large corporate operations within the tax and customs administration. It does not handle any operational issues directly but supervises the operations of 11 LTUs nationwide.

Functions: Technical advice, taxpayer services, audits, collection monitoring, and arrears collection are included. Corporate taxpayers send their returns to the 11 LTUs, but a central unit handles the final processing of large business returns, as well as all returns and payment documents. The LTUs administer the corporate taxpayers following a model of "account management," which differs from the practice of the other tax offices.

Scope of taxes: The large corporates division is responsible for administering indirect taxes (the VAT and excise taxes), corporate income taxes, pay-as-you-earn (PAYE) and payroll taxes, and on a test basis, customs duties.

Taxpayers and tax: To fall under the responsibility of the large corporates division, corporate taxpayers must meet two out of the three following criteria: (1) more than 50 employees, (2) assets in excess of the equivalent of about $3.9 million, and (3) annual turnover in excess of the equivalent of $15.6 million. The department controlled some 15,000 taxpayers during 1999 and collected VAT, excises, and corporate and personal income tax amounting to some 60.6 percent of annual collections of the tax and customs administration (FAD survey: 1999).

Audits: Additional taxes assessed because of audit actions were 4.9 percent of total LTU tax collection (1997), 6.5 percent of LTU collection (1998), and 7.0 percent of LTU collection (1999).

Number of staff employed: As of December 1999, the large corporates division employed some 2,150 staff—about 7 percent of the total tax and customs administration staff.

Source: The survey response of the General Directorate for Tax and Customs Administration and IMF staff.

several companies belonging to a same group, as well as controlling the taxation affairs of the main shareholders. Moreover, several of these entities may be related to others that are located in foreign countries, and requests for information may need to be sent to foreign tax administrations. Auditors responsible for large taxpayers also need to be familiar with issues of international profit shifting, transfer pricing, and thin capitalization.

In developing and transition countries, setting up a large taxpayer operation with a dedicated audit team may also allow closer scrutiny and supervision of the conduct and results of audits by audit managers. This would increase the chances that corrupt practices might be readily detected and addressed.

Introducing an Organization Based on Types of Taxpayers

Over the past ten years, several advanced tax administrations have reorganized their operations around a segment of the taxpayer population (especially according to taxpayer size), based on the view that strategies that consider the risks for tax revenue, which vary by type of taxpayer, are the most effective means to improve tax compliance. In the early 1990s, the Netherlands reorganized its tax and customs administration along four departments: large companies, medium-size and small businesses, other taxpayers, and customs (as described in Box 1.2). In 1994, the Australian Tax Of-

Box 1.3. Large Taxpayer Compliance Operations in Australia

Australian Taxation Office: Large Business and International Business Line

Background: In July 1994, following a major review of its internal structure and operations, the ATO adopted an organizational structure based principally on "taxpayer segments" (i.e., large businesses, small businesses, and individuals). This fundamental shift in structure (i.e., from a "functional" structure to one based on discrete segments of taxpayers) was intended primarily to strengthen the ATO's capacity to manage taxpayers' compliance. Underpinning this change was a recognition that distinct segments of taxpayers present fundamentally different risks to revenue. They also have diverse service needs and, as such, require specially tailored programs of service, education, and enforcement to achieve proper compliance with the tax laws. As part of this reorganization, the Large Business and International (LB&I) business line was established to administer the income tax affairs of the largest taxpayers in Australia.

Role: The LB&I line manages and shapes the tax systems as they apply to large business and associated key individual taxpayers in domestic and global markets, and ensures that Australia gets its fair share of tax from these taxpayers. It helps develop the ATO's understanding of the tax implications of global business, the interaction of Australia's tax system with those of other countries, international tax policy and practice, the degree of alignment between tax system and industry policy, the operation of the tax system in each industry segment (described below), impacts of large and international business activity for the rest of the tax system, and factors influencing compliance behavior (*Commissioner's Annual Report: 1999–2000*).

Current organizational arrangements: The LB&I consists of a dedicated headquarters function with operations conducted from 10 regional centers in the major capital cities of Australia. The line segment is led by a dedicated deputy commissioner who reports directly to the commissioner of taxation. The existing structure of the LB&I is principally a matrix of industry and topic segments, intended to bring a specialist focus to the management of specific subsegments of taxpayers and tax issues. The industry segments are financial services industry, multimedia and information technology, energy and resources, and national client group (manufacturing, transport, retail, business services, and major building projects). Specialist tax issues dealt with in the LB&I structure include international, innovation, privatization, capital gains tax, losses, and tax reform topics (leasing, consolidation, and taxation of financial arrangements).

Functions undertaken: These include technical advice, taxpayer services, audits, limited collections monitoring, policy work, treaty negotiation, revenue forecasting, and research. Special positions, "key client managers," have been created to coordinate services to the very largest taxpayers. Industry segment teams assist with collections enforcement, but this work and basic processing tasks are largely contracted to another part of the ATO.

Scope of taxes covered: Under existing arrangements, the work of the LB&I is confined to corporate taxation, and personal taxation in relation to the tax affairs of those designated "high wealth" individuals. Administration of the affairs of large taxpayers as they relate to other taxes is contracted with other business lines, for example, the Small Business Income business line oversees personal income tax withholdings, while a new business line has been created to plan and implement a new goods and services tax (GST) that became operative on July 1, 2000.

Taxpayers and tax paid: The LB&I is responsible for the income tax affairs of corporate taxpayers with annual turnover in excess of $A10 million, their subsidiaries (regardless of their income level), associated key individuals, and superannuation funds with investment income of A$ 50 million or more. During the year ending June 30, 1999, the LB&I controlled some 30,958 taxpayers and accounted for collections amounting to 13.4 percent of annual ATO collections of the corporate income tax.

Audits: Additional taxes assessed because of audit actions, expressed as a percent of total tax collection for the largest taxpayers, were about 9.6 percent (1997), 4.5 percent (1998), and 10.8 percent (1999).

Number of staff employed: As of November 30, 2000, the LB&I employed some 1,250 staff, about 8.6 percent of total ATO staffing.

Source: The ATO response to the survey, and various annual reports of the ATO Commissioner.

fice (ATO) reorganized its structure by taxpayer segments (large businesses, medium-size and small businesses, and nonbusiness individuals), as described in Box 1.3. Also in 1994, the New Zealand Inland Revenue Department (IRD) organized itself around three major segments: "corporates" (older, large business segment), a newer, small business segment, and an individuals segment (see Box 1.4).[12] Beginning in October 2000, the U.S. IRS replaced its three-tiered geographic organizational structure (national, regional, and district offices), with one focusing on servicing taxpayers

[12]A further change was made during 2000 to include individuals within the second segment. Return filing by individuals and wage earners was eliminated, removing the need for a separate segment.

Box 1.4. Large Taxpayer Compliance Operations in New Zealand

Inland Revenue Department: Corporates Segment

Background: In January 1994, the corporates segment was established within the IRD. In 1995 and 1996, departments were added when IRD management strategically organized the tax administration around taxpayer segments, reflecting different levels of tax compliance. By 1999, the three main taxpayer segments were (1) "corporates" (large and certain specialized businesses); (2) "businesslink" (smaller businesses with tax agents); and (3) "businessdirect" (very small businesses and individuals).

Role: All corporates segment staff are responsible for delivering services to corporate customers. However, they may specialize in specific functions. Investigators are primarily responsible for audits to correctly assess the amount of tax owed. Business services staff handle taxpayers' questions promptly and accurately, a priority for the corporate segment. Taxpayer services may involve ensuring that assessments have been issued correctly, returns are received, overdue debt is paid, and general tax inquiries are answered. Thus, business services staff acquire an extensive knowledge of Inland Revenue operations, including technical skills, return and debt management policies, and the registration of new entities. For large corporate customers and some particular industry groups within a sector, a senior staff member manages the account, acting as the principal Inland Revenue contact for all tax issues for that customer. The segment also provides a business advisory service and other educational programs to improve voluntary compliance.

The corporates segment and policy advice division work together to develop policies that will strengthen customers' voluntary compliance and that can be smoothly administered.

The rulings unit develops binding rulings and develops and communicates technical policy to customers and Inland Revenue. Staff in the corporates segment provide advice and commentary on industry issues and technical interpretations on legislation and policy throughout this process. The corporates segment administers binding rulings for transfer pricing.

Current organizational arrangements: The corporates segment is structured into sector units based on industry type and specialized tax needs. The main sectors covered include international tax, computer tax audit, banking, insurance, nonresident entertainers, overseas contractors, manufacturing, services, resources, and public sector entities. Each sector is headed by a manager and consists of a mix of experienced investigators, lawyers, and service staff who deal with technical inquiries. The corporates segment is managed as one unit, with a national office in Wellington and two main operational centers. IRD headquarters carries out strategic oversight of this segment's operations.

Scope of taxes: The IRD is responsible for collecting the goods and services tax (GST), excise taxes, corporate and personal income taxes, pay-as-you-earn (PAYE) and payroll tax, and other direct taxes.

Taxpayers and amount of tax paid: Taxpayers in this segment range from large corporates to small mining operators. Wealthy individuals, large accounting and legal firms, and smaller subsidiary companies owned by multinational corporations are also included. Taxpayers (or "customers") fall into one of three categories: (1) groups of companies with a turnover in excess of $100 million, (2) companies whose industry is governed by special tax legislation, or (3) large companies who have nonresident ownership. Large corporates controlled some 12,500 taxpayers during 1999 and collected domestic taxes amounting to about 25 percent of annual IRD collections.

Audits: Additional tax assessed because of audit actions was 2.8 percent of total LTU tax collection (1997), 3.4 percent of LTU collection (1998), and 7.9 percent of LTU collection (1999).

Number of staff employed: The corporates segment employs some 240 staff—about 5.5 percent of the total IRD staff.

Sources: The IRD's response to the survey, the IRD annual report for the year ending June 2000, the IRD website: *www.ird.govt.nz*, and IMF staff.

with similar needs: individuals, small businesses, large corporations, and tax-exempt organizations (see Box 1.5). The French General Tax Directorate has also developed a plan to reorganize itself into three groups: natural persons, small and medium-size businesses, and large corporations. The first phase of the reform is to establish a full-fledged Directorate of Large Enterprises (Direction des Grandes Enterprises) starting in January 2002. In the United Kingdom, both HMC&E and IR have large taxpayer compliance operations (Box 1.6 describes those of IR).

The experience of the Netherlands and New Zealand is particularly relevant for the developing and transition countries discussed in this paper because they have unified large taxpayer operations that cover all the main national taxes, including income taxes and the VAT. In other developed countries with tax administrations organized by taxpayer segment, such as Australia and the United States, the large taxpayer operations focus mostly on managing the corporate income tax.

Box 1.5. Large Taxpayer Compliance Operations in the United States

U.S. Internal Revenue Service (IRS): Large and Mid-Size Business Division

Background: In early 1998, the IRS Commissioner announced a proposal for modernizing the IRS, including establishing four working divisions based on "customer segments" (i.e., large and midsize business, small business and self-employed, wage and investment income, and tax exempt and government entities). The fundamental change in structure proposed (i.e., moving from a functional and regional based structure) followed much study and criticism of IRS operations, which suggested that the IRS's existing structure no longer enabled it to achieve its goals. The proposed move to a "customer segment" structure recognized that the needs of taxpayers in each segment were very different; serving them effectively and efficiently required diverse services and distinct ways of delivering those services. Following announcement of this proposal and its subsequent congressional confirmation, extensive work was done to complete design of the new organization, business practices, and management roles, culminating in their introduction in October 2000. As part of this reorganization, the Large and Mid-Size Business Division (LMSB) was established to administer the tax affairs of the largest taxpayers.

Role: The IRS developed a new mission statement, which sets the direction for its modernization effort: *to provide taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.* In broad terms, the LMSB is required to carry out this mission as it relates to its segment of taxpayers. To do this, it has identified four strategic priorities: (1) globalization—build a tax administration to effectively deal with the global economy; (2) issue management—develop a strategy to resolve disputes sooner with taxpayers; (3) employee skills and satisfaction—recruit and retain a highly qualified, skilled, and satisfied workforce; and (4) abusive corporate tax shelters—strengthen the ability to deal with corporate tax shelters.

Sources: The IRS's response to the LTU survey; the IRS publication "Modernizing America's Tax Agency," and the IRS website (*http://www.irs.gov/prod/news/lg-mid*).

Organizational arrangements: The LMSB is composed of a headquarters function, led by a commissioner and deputy commissioner, with field operations conducted from major cities across the United States. The LMSB headquarters provides leadership, management of organizational activities, capital budgeting, forecasting, and financial management, interacting as necessary with other operating and support divisions. The division's field operations are organized along industry lines, and report directly to IRS headquarters. There are five industry groupings: financial services and healthcare; retailers, food, and pharmaceuticals; natural resources; communications, technology, and media; and heavy manufacturing, construction, and transportation. An office of field specialists (e.g., computer audit specialists, engineers, economists, financial products and transactions specialists, and employment tax specialists) supports the five industry groups.

Functions: Industry groups design, develop, and implement programs, including prefiling and educational activities to assist customers in understanding industry specific tax responsibilities and complying with the tax laws. Industry groups are expected to be in continuous communication with industry stakeholders and industry experts to increase taxpayer education, improve business practices, and clarify common tax issues. Industry groups also identify global industry trends and issues to improve customer service and compliance. Most field staff audit/examine tax returns and perform outreach/educational activities and related services to taxpayers. The LMSB contracts with other parts of the IRS for returns processing and collection functions.

Taxes and taxpayers covered: Each industry group is required to administer all domestic and international tax laws and tax treaty provisions applicable to industry specific customers. The LMSB is responsible for all corporations and partnerships with assets over $5 million, which includes some 227,000 taxpayers.

Number of staff employed: The new division has 7,035 staff (7 percent of total IRS staff), including 565 headquarters staff, and field staff of around 6,500 (708 managerial staff, 4,933 professional staff, and 829 support staff).

Box 1.6. Large Taxpayer Compliance Operations in the United Kingdom

U.K. Inland Revenue (IR)—Large Business Office and Oil Taxation Office

Background: IR operates a discrete executive office known as the Large Business Office (LBO). This office was created in August 1997 to combine staff that had been working previously in separate functional units into one operation. This operation was broadened in April 1999 with the inclusion of the Large Employers' Unit of the Contributions Agency into the executive office as part of the wider merger between IR and the Agency. IR also operates a dedicated "Oil Taxation Office" to administer the tax affairs of petroleum industry taxpayers.

Role: The LBO handles the tax affairs of the largest U.K. taxpayers and partnerships, U.K. banks, building societies, and insurance companies and the Lloyd's of London Underwriting syndicates. Through its compliance teams, it is also responsible for employer compliance for PAYE schemes operated by the United Kingdom's largest employers and public sector bodies.

The Oil Taxation Office is responsible for valuing oil and gas production for royalty and tax purposes, for administering petroleum revenue tax and corporation tax on production profits, and for related advisory and compliance functions.

Organizational arrangements: The LBO is made up of 15 Large Business Offices and 18 Large Employer Compliance Offices based throughout the United Kingdom.

Functions: Both offices undertake technical review work, which includes examining tax returns and accompanying information, dealing with taxpayers inquiries, and conducting field examinations. The LBO also supports the operation of the "Large Corporates Forum," whose purpose is to foster a closer working relationship with its customers, better understand their needs, debate issues, and provide them with an additional avenue to develop thinking on tax policy and administration issues. (Details of the forum (i.e. agenda and minutes) are contained on the IR's website available via the Internet: http: www.inlandrevenue.gov.uk).

Taxes covered: The LBO is responsible for the income tax affairs of its client taxpayers, including PAYE employee withholding. Its work does not extend to VAT or excises; these taxes are administered by a separate agency, HMC&E.

Taxpayers and tax paid: The Large Business Offices handle the tax affairs of about 2,000 corporations and other entities, while the large Employer Compliance Offices are responsible for reviewing the affairs of some 3,000 of the largest commercial and public sector employers (representing about 60 percent of the U.K. employee workforce).

Audits: The total additional assessed liability resulting from the work of these organizational units is

	1998	1999	2000	2001
Corporate tax (millions of U.K. pounds)	1,528	1,886	1,876	2,142
Employer contributions (millions of U.K. pounds)	69	28	35	45

Number of staff employed: The 15 Large Business Offices employ 420 staff. The Large Employer Compliance Offices employ some 250 staff. Total IRD staffing is about 60,000.

Sources: IR Annual Reports; and IR's website (*http://www.inlandrevenue.gov.uk*). As mentioned, the Customs and Excise Department (HMC&E) also has a separate large taxpayer control operation focusing on the indirect taxes.

II Basic Characteristics of LTUs in Developing and Transition Countries

This section summarizes country responses to the LTU survey in several areas, ranging from a country's main reason for establishing the LTU to the LTU's organization and functions. The discussion of different aspects of LTUs across countries also highlights IMF guidelines and policy recommendations, where relevant.

Focus on Large Taxpayers Prior to LTU Establishment

Nearly half of the survey respondents indicated that the tax administration had some sort of focus on large taxpayers before the establishment of an LTU.[13] In Bulgaria, the tax administration monitored large taxpayers in 27 local offices, but none in the capital city, where the largest taxpayers are concentrated. In the Philippines, before the January 2000 establishment of the LTU, the Bureau of Internal Revenue monitored the collections of the largest taxpayers.

However, other countries (e.g., Argentina, Bolivia, Colombia, Ecuador, El Salvador, Hungary, Kenya, Latvia, Sri Lanka, Uruguay, and Venezuela) report that their tax administrations did not focus on monitoring the compliance of the large taxpayers before establishing specialized large taxpayer units.

Main Reasons for Implementing the LTU

As mentioned earlier, the reasons countries have established specialized large taxpayer operations include (1) to secure tax revenue (by ensuring compliance with basic return filing and payment obligations), (2) to improve the effectiveness of audit activities, (3) to improve the management of tax arrears, and (4) to provide better services to taxpayers.

[13]These countries include Benin, Bulgaria, Cameroon, Mexico, Moldova, Mongolia, the Philippines, Tajikistan, Togo, Uganda, and the Ukraine.

Survey respondents were asked to rank the reasons for establishing the LTU in order of priority. As Appendix Table A1 indicates, most of the developing and transition countries surveyed responded that the most important reason was to secure a consistent flow of tax revenue. Three countries, Colombia, Hungary, and Mexico, identified the provision of better services to the taxpayers as the main reason for establishing the LTU. Providing good taxpayer services and taxpayer information is seen by the IMF as essential to raising taxpayers' voluntary compliance with tax laws. This area has received increasing emphasis among tax administrations around the world that are interested in achieving long-term improvements in taxpayer compliance.

Context of LTU Establishment

Sixty percent of the countries responding to the survey indicated they established the LTU as part of an overall tax administration reform. This was the case in Bolivia, where establishing LTUs in 1988 and 1989 was a pilot project for modernizing the tax administration's organization, systems, and procedures. The new LTU brought to light major compliance problems among some of the largest taxpayers, including failure to file and pay taxes by several multinational companies.

In El Salvador, establishing the LTU coincided with introducing the VAT in September 1992.

In Hungary, setting up the LTU was part of a comprehensive tax administration reform program in the early to mid-1990s. The tax administration's organization changed from tax-type to function-based, the number of local offices nationwide was significantly reduced, and the responsibility for administering local taxes was transferred from the central to the local government level.

In Uganda, establishing the LTD in 1998 was a key part of a strategy to merge the income tax and VAT administrations.

In all of these cases, countries emphasized providing better services to large taxpayers. Indeed, in most countries where an LTU has been established,

the companies appreciate such an organization, as they prefer to deal with experienced and well-trained tax staff who can understand complicated tax laws and the complex operations of large enterprises.

Legal Basis for Establishing the LTU

A critical issue in implementing an LTU is whether there is a proper legal basis for making such an organizational change. In many countries, the tax laws allow the tax administration to reorganize internally and to reassign taxpayers from one tax office to another (in this case, from a local office to the LTU). In other countries, however, the tax administration lacks these powers. Prior approval from the ministry of finance, the cabinet of ministers, and sometimes the legislature is required to change internal organization. This makes such change difficult, time consuming, and subject to political pressure that may have little to do with improving taxpayer compliance or tax administration effectiveness. In many of the CIS countries, local offices have strongly resisted the transfer of "their" large taxpayers to the LTU, partly because the majority of the large taxpayers are still state enterprises with close links to the local government structure and officials. Transferring the large taxpayers to the LTU may diminish local offices' importance in overall revenue collection and may also imply the loss of indirect payments to local tax officials.

As Appendix Table A2 shows, almost 25 percent of the survey respondents (i.e., the developing and transition countries) indicated that they required special legal provisions to establish the LTU in their countries. The other countries in Africa, Latin America, Central and Eastern Europe, and Asia responded that no additional legal authorization was required to establish the LTU.

Taxes Administered by the LTU

As Appendix Table A3 shows, most LTUs and large taxpayer audit units in the developing and transition countries surveyed have the mandate to collect, enforce, and/or audit (1) the VAT or a national sales tax; (2) excises and other indirect taxes (e.g., the National Security Levy in Sri Lanka); (3) the corporate and personal income tax; and (4) other direct taxes, such as stamp taxes. In several transition countries (Bulgaria, Latvia, Moldova, Tajikistan, and the Ukraine), as well as a few African countries (Burkina Faso, Togo, Uganda), the LTU also administers local taxes. In five of the countries surveyed (Argentina, Hungary, Latvia, Moldova, Peru), the LTU is also responsible for collecting social security contributions.

To improve overall revenue performance, the IMF has consistently recommended that LTUs be given a mandate to administer all the major national taxes. In general, the IMF has recommended against assigning the administration of local taxes to the LTUs, because (1) local taxes tend to require significant administrative resources relative to their revenue productivity, (2) generally, local governments are better equipped to administer these taxes, and (3) they are usually less important in revenue terms. Despite this, the IMF has not always been successful in convincing tax officials in CIS countries that local taxes should be administered at the local government level and that LTU resources are better spent administering major national taxes than local taxes.

Criteria Used to Identify the Largest Taxpayers

Once the decision has been made to establish an LTU, one of the most important issues to address is how to select the large taxpayers. Often, tax administrators are tempted to select them based on the amount of tax they have paid historically: those regularly paying the most tax are automatically chosen as large taxpayers. In many developing countries, however, where a limited number of large taxpayers can be fairly easily identified as the large taxpayers, problems may arise using the amount of tax paid as the only basis for selecting the large taxpayers. The following groups of taxpayers could be excluded: (1) taxpayers who regularly underreport or underpay tax, (2) large firms enjoying tax holiday,[14] and (3) large exporters with significant amounts of refunds.

Recognizing this, the IMF has recommended that countries setting up an LTU use several different selection criteria that better reflect taxpayers' payment potential, including the (1) amount of annual sales/turnover, (2) amount of annual income, (3) value of assets, (4) level of imports/exports, and (5) type of economic activity. Of these, the amount of annual sales/turnover is normally recommended as the primary criterion.

As Appendix Table A4 shows, most of the countries surveyed for this study combine criteria for selecting the large taxpayers. Because most countries

[14]A common IMF recommendation is that firms benefiting from tax holiday schemes also be monitored by the tax administration (they should submit tax returns showing their volume of sales or income, for example) to ensure they are complying with the conditions of the specific tax holiday program. This would also assist governments to identify the costs to revenue of tax holiday arrangements.

included in the survey have a VAT, and the VAT tends to represent a major part of government tax revenue, it is not surprising that the most common factor for selecting the large taxpayers is amount of annual turnover (nearly 75 percent of survey respondents).[15] The second most common criterion is amount of tax paid in the previous filing period, with type of economic activity following as the third most important. Other countries select large taxpayers according to amount of tax assessed, the magnitude of VAT refund claims, the value of assets, the complexity of taxpayers' corporate structure, the number of large withholding agents, and their designation as government departments and agencies.

LTU Organization, Reporting Lines, and Functions/Structure

Organization

Countries follow various models to set up an LTU "system" and to define an LTU's internal organization. Tax administrations tend to follow three general models for the number of LTUs they establish: (1) a single LTU, which operates like a specialized local tax office focusing exclusively on the large taxpayers, (2) a single LTU with branches in different geographical regions, and (3) multiple autonomous LTUs throughout the country. As Appendix Table A5 shows, developing and transition countries were split fairly evenly among these three models, as nine countries have a single LTU, nine countries have a single LTU with branches, and eight countries have multiple, autonomous LTUs. Within each of these organizational models there are slight variations. For example, in several countries with branches, the local and regional offices carry out key functions (e.g., receipt and processing of tax returns, audit) with respect to large and/or medium-size taxpayers located in the regions.

Regarding the number of large taxpayer offices, Table A5 suggests that countries with more large taxpayers spread over larger geographical areas, tend to have more offices than do countries with fewer large taxpayers that are more concentrated geographically (e.g., Bolivia, Bulgaria, Moldova).

Reporting Lines

A critical question is always the definition of reporting lines from LTU offices to the tax administration's senior management. Defining proper reporting lines is key to ensuring that headquarters can effectively monitor LTU operations and quickly identify and address problems as they arise. Here again, various reporting arrangements exist across countries. As Appendix Table A6 shows, in several Latin American countries (Argentina, Bolivia, Colombia, El Salvador, Paraguay, República Bolivariana de Venezuela), the large taxpayer units are equivalent to regional offices and report to the head of the tax administration. In other Latin American countries (Ecuador, Mexico, Uruguay), the LTUs report to a large taxpayer department at headquarters, which supervises their operations.

In many African countries (Benin, Cameroon, Kenya, Togo, Uganda) the LTU reports to the head of the tax department or, in the case of Uganda, to a deputy commissioner for revenue, who in turn reports to the commissioner.

Given the trend toward a more client-based structure in tax administrations (i.e., one in which the entire tax administration, including the headquarters structure, is organized by type of taxpayer), the IMF encourages countries that are moving in this direction to establish special headquarters units, departments, or divisions (whichever is relevant for the structure of the tax administration) to supervise LTU operations. However, many tax administrations in developing and transition countries lack the conditions for establishing an effective client-based structure. Indeed, in many countries the standard functional structure is not fully in place and operating well, and the tax administration's headquarters office is still poorly organized, managed, and staffed. Unless these problems are addressed for the headquarters as a whole, a special headquarters unit in charge of overseeing LTU operations, as well as the LTU itself, could be ineffective.

Functions/Structure

As already mentioned, some countries have adopted LTUs as pilot projects for introducing a more rational and effective organizational structure for the entire tax administration.[16]

[15]Generally, the IMF recommends that countries use annual sales, rather than quarterly or semiannual sales, as the principal criterion for identifying large taxpayers, as seasonal fluctuations in sales tend to diminish over a 12-month period. This would prevent a situation in which taxpayers with high year-end sales would be categorized as large taxpayers simply because of the increase in one quarter's economic activity.

[16]In several developed countries where specialized audit units for the large taxpayers were established in the 1970s and 1980s (e.g., France, Spain), the trend is to broaden the mandate of the large taxpayer unit/operation to include more functions, creating a "full-service" unit (i.e., one that also monitors compliance with filing and payment obligations, enforces tax arrears, and provides taxpayer services).

Until the 1980s, many tax administrations in Latin America and Africa were organized according to the type of tax, resulting in a duplication of functions (e.g., audit, collection of arrears), lack of coordination in key operations across taxes (especially with respect to audit), difficulties sharing information about taxes (tax-type departments could have separate taxpayer identification numbers for the same taxpayer and separate accounting systems), and higher administrative and compliance costs. In most of the Baltic countries, the CIS, and Central and Eastern Europe, tax administrations are largely organized according to type of taxpayer, although some countries are moving toward a functional organization.[17]

In general, the IMF has recommended that countries should set up specialized offices to control large taxpayer compliance by establishing "full-service" LTUs—units that are responsible for all key tax administration functions, including return filing and payment, integrated accounting, collection enforcement, audit, and taxpayer services. The experience of many developing and transition countries has shown that there are numerous risks in establishing an LTU operation responsible for performing only selected functions such as audit or arrears collection. In these countries, key tax administration functions tend to be poorly integrated, and accounting systems do not provide a complete picture of a taxpayer's liabilities for the different types of taxes. Thus, it is not uncommon for officials in charge of enforcing unpaid and overdue tax debts to lack complete and up-to-date information about these arrears. As a result, their collection efforts are likely to focus on arrears for only some taxes or on tax debts that are older and more difficult to recover, with resulting low debt recovery rates.

Similarly, in developed countries where a large taxpayer audit directorate is already established, a key reason to move toward the creation of a full-fledged LTU has been the need to take a more integrated approach to developing a compliance strategy. It makes little sense to develop a sophisticated audit branch for large taxpayers and their complex operations, if the files of the different components of a same group (and those of their main shareholders) are split among several small offices where they may not be properly maintained and monitored.

One example of problems that arise when an LTU is not responsible for all key tax administration functions can be seen in Moldova. In Moldova, it has been extremely difficult for the LTU to audit taxpayers effectively because local tax offices, which are still responsible for filing returns and monitoring tax payments for the large taxpayers, have refused to hand over the taxpayer files (the starting point for any taxpayer audit) to LTU auditors. The LTU has also been unable effectively to enforce the collection of large taxpayers' overdue tax liabilities, in part because there are other government agencies that also perform this function but are reluctant to cooperate with LTU officials. Thus, the LTU's lack of full responsibility for all key tax administration functions has been a major reason why it has not been more effective in increasing large taxpayers' compliance.

As Appendix Table A7 shows, in most developing and transition countries where the IMF has provided technical assistance to set up large taxpayer units, these offices are "full-service" offices, which perform all the major tax administration functions. Of the countries surveyed, only a handful (Armenia, Guatemala, Moldova, Sri Lanka, and Uruguay) have received IMF technical assistance where the LTU's functions are limited to only one or two functions (e.g., filing and payment processing, audit, or collection of arrears).[18]

LTU Procedures

Return Filing and Payment

One of the main objectives of IMF technical assistance in setting up a large taxpayer unit has been to establish simple and convenient filing and payment procedures to promote taxpayers' compliance with filing and payment. Experience has shown that it is worthwhile for tax administrations to establish effective filing and payment procedures, because taxpayers who file and pay their taxes accurately and on time are less likely to accumulate tax arrears. In countries where large taxpayer arrears have gone undetected for months, or even years,

[17]However, the criteria used to classify taxpayers by type in the Baltics and the CIS are different from those generally referred to in this paper, and usually consist of the following: state-owned enterprises, joint ventures, sole proprietorships and individuals, etc.

[18]Developed countries may not always have the equivalent of "full-service" LTUs, but this is because their tax administrations face different conditions from developing countries. In the case of modern tax administrations, (1) basic tax administration functions tend to be better integrated, making it easier for functional departments to support specialized large taxpayer operations, (2) computerized information systems are generally more flexible and integrated, and (3) there is a concern that functions could be duplicated, as large taxpayer compliance operations tend to depend on other departments of the tax administration for basic functions such as returns processing. For example, in the U.S., the Large and Mid-Size Business (LMSB) Division's primary focus is audit, with increasing emphasis on prefiling services and outreach to taxpayers. The LMSB Division contracts out with other IRS divisions for collection, processing, and accounts management services.

experience shows that they are virtually uncollectible. Controlling a limited number of large taxpayers using a limited amount of resources can have a significant impact on tax collection performance.

For taxpayers in many developing and transition countries, filing returns and paying taxes is still cumbersome and time-consuming. Some tax administrations do not provide printed return forms, and often taxpayers must stand in long lines to file their returns and pay taxes.

Return Filing

Establishing a specialized LTU can be an effective way to address these weaknesses. Setting up a special office where the large taxpayers can submit their returns (on paper, diskette, or electronically), tends to reduce the time needed to file a return; it also ensures the information on the taxpayer's liabilities will be promptly captured and accurately recorded in the taxpayer's account.[19]

Generally, the IMF has recommended that taxpayers file their returns at the LTU, and that the LTU be a "full-service" office responsible for all the major tax administration functions. Nevertheless, in some countries (e.g., El Salvador, Latvia, Uganda), large taxpayers initially file their returns (and make their payments) through the banks. After processing the returns, the banks transfer the filing and payment data electronically to the LTU, and then transfer the paper returns to the LTU. Filing tax returns through the banks tends to be much less effective than filing directly at the LTU, because no special priority may be given to the large taxpayers when they file through the banks. Moreover, filing information takes more time to reach the tax office. Thus, there is a greater chance that taxpayers will file their returns late (or not file at all). In El Salvador and Honduras, for example, where the large taxpayers file their returns through the banks, stop-filing rates are significantly higher than in other Latin American countries where large taxpayers submit their returns directly to the LTU.

Several developing countries surveyed do not follow the return filing practices described earlier. In Kenya, large taxpayers file their returns and make their payments centrally at the offices of the respective revenue departments (i.e., income tax department, value added tax department, and customs and excise department).[20] Large taxpayers follow different filing and payment procedures for different types of taxes; this complicates administration and increases taxpayers' compliance costs. It is therefore a practice the IMF discourages. In Mexico, the large taxpayers file their returns at the tax collection department of the Tax Administration Service (Servicio de Administración Tributaria or SAT), where returns are processed. In developing country tax administrations, procedures tend to be fragmented, and basic taxpayer information is not well disseminated throughout the tax administration because there is no integrated taxpayer current account.[21] The lack of centralized return filing procedures for the large taxpayers can complicate the task of effectively monitoring these taxpayers and may increase their compliance costs.[22]

As Appendix Table A8 shows, various return filing practices are used across countries for the large taxpayers, including electronic filing through the LTU, paper filing through the LTU, and filing through the banks. In countries where the LTU performs only audit and/or enforcement functions (e.g., Moldova), large taxpayers generally file their returns like other taxpayers, either electronically or in paper form, by mail or directly at the local tax office level.

Payment

Recognizing the budgetary importance of large taxpayers' timely payment of taxes, many countries have set up large taxpayer operations to facilitate payment. In this area, IMF advice has varied slightly according to the existing payment system in the country. In many countries, taxpayers pay their taxes through the banks, as banks usually are better equipped than tax offices to process payments. In several Latin American countries (Argentina, Bolivia, El Salvador, Peru, República Bolivariana de Venezuela), and other developing countries such as Sri Lanka, the IMF has recommended that the banks set up special branch offices directly on the premises of the LTU, making payment more convenient for the large taxpayers. With IMF advice, some countries (e.g., Ecuador), have introduced the automatic debiting of taxes from the large taxpayers' bank accounts.

[19]In many developing and transition countries, mailing the paper return to the LTU is not a good option, as the postal system is inefficient and the chances are high that the return will not arrive by the filing due date.

[20]The VAT is paid through the banks.

[21]The taxpayer current account is the record that shows the taxpayer's liabilities and payments for all the taxes for which he is registered.

[22]By contrast, because developed country tax administrations tend to have more integrated operations and more complete and accurate information flows, requiring the large taxpayer to file returns through a specific office may not be so critical. In Australia, for example, most large taxpayers file their returns electronically. This information is then managed through the ATO's "Small Business" segment, and reviewed by the Large Business and International (LB&I) segment.

In sum, various procedural arrangements are used across countries to facilitate filing and payment for the largest taxpayers. As the information in Appendix Table A8 suggests, the most common arrangement among the countries surveyed is for the large taxpayers to file their returns through the LTU (either electronically or in paper form), and to pay tax due through the banks. Some countries (Colombia, El Salvador, Latvia, and Uganda), give large taxpayers the option of both filing their returns and paying through the banks. Others (e.g., Benin, Burkina Faso, Cameroon, Paraguay, Togo, and Uruguay) provide for "joint filing and payment" at the large taxpayer office. Among the countries surveyed, some (Bolivia, Colombia, El Salvador, Philippines, Uganda) provide the large taxpayers with several choices for filing their returns and paying the tax due.

Audit

An effective audit program is essential to ensure that taxpayers are aware there will be consequences in not complying with the tax laws. Because the effectiveness of the audit program can be measured not only by the direct revenue yield, but also by how it contributes to better tax compliance, most modern tax administrations pay special attention to auditing large taxpayers. These audits usually result in the largest share of additional assessments.[23]

A good audit program employs strategies to optimize both the direct and the deterrent effect of audits. The first can be achieved by auditing a higher percentage of the large taxpayers. In many developing and transition countries, where the largest taxpayers are likely to account for up to 80 percent of domestic tax revenues, the audit strategy should require a significantly higher percentage of large taxpayers to be audited each year than medium-size and small taxpayers.[24] The deterrent effect is best achieved through a highly visible audit program that extends to as many taxpayers as possible at all levels. This suggests a strategy of short, focused audits on a small percentage of the smallest taxpayers and a slightly higher percentage of medium-size taxpayers. Given their importance for tax revenue and the complexity of their operations (e.g., their ability to shift profits offshore, to characterize income as capital receipts, etc.), large taxpayers should as a rule be audited more often than medium-size and small taxpayers.

A standard audit organization may include two or three levels. At the first level, local offices undertake essentially routine, issue-oriented audits (e.g., desk verifications, registration checks of small and medium-size enterprises, VAT refund checks, and issue-oriented audits).[25] Second, at the regional level, a unit is typically staffed with more highly skilled auditors than at the local office level. These auditors are responsible for in-depth audits—usually comprehensive audits of tax liabilities of the medium-size and large enterprises—for all the years within the time limit for conducting the audits. In some countries, the first and second level of audit offices are combined. A third (or second level, depending on whether there is a separate regional audit function) is a headquarters-based audit department, which typically designs annual audit plans, monitors their execution, and evaluates audit results on a national basis.[26]

Table A9 indicates that most of the large taxpayer compliance operations in the countries surveyed base their audit programs on a combination of comprehensive, issue-based, and desk audits. In general, the IMF recommends that countries combine several different types of audits in their audit program, including comprehensive and issue-based audits. Issue-based audits focus on specific tax issues (e.g., the relationship of VAT credits claimed to VAT debits), and tend to be much shorter than comprehensive audits, permitting an increase in audit coverage.

In about half the countries surveyed, LTU audit operations are structured according to major industry segments, reflecting a growing trend in more modern tax administrations. In most countries, the largest taxpayers pose a special challenge to the tax administration because of the degree of sophistication of their organization and operations. In addition, auditors require specialized skills to be able effectively to analyze and audit the operations and records of companies in specialized industry sectors (e.g., energy, finance). Therefore, to increase audit effectiveness, a standard IMF recommendation in the audit area is for countries to organize their LTU audit operations around the major sectors of economic activity.

Sixteen countries report audit operations organized around industry segments. Besides most

[23]For example, in France and Australia, about 2 percent of taxpayers generate about 40 percent of the value of assessments raised after an audit.

[24]The actual audit coverage will vary depending on the number of auditors available to conduct audits, and other resources available to support audits. The audit coverage will also depend on the statute of limitations for audits: the shorter the statute of limitations, the higher the percent of taxpayers that should be audited.

[25]Issue-oriented audits can be performed for the VAT (e.g., checking mark-up margins), excise taxes, and the CIT (e.g., the auditing of financial leases).

[26]In several developed countries (e.g., France, Japan, and the U.K.), the third level is a headquarters-based audit unit (staffed with highly skilled auditors), responsible for auditing large companies' tax liabilities (including those of complex multinational corporations, and large companies with a number of subsidiaries).

OECD countries surveyed, nine countries in Latin America, Africa, Asia, and the region of the Baltics and the CIS report structuring their audit operations around specialized industry sectors.

Enforced Collection of Overdue Taxes

Effective collection enforcement of large taxpayers' overdue tax liabilities is an essential LTU function. In many developing and transition countries, large taxpayers represent much of the total stock of tax arrears. Therefore, preventing the large taxpayers from incurring tax arrears in the first place (by effectively monitoring compliance with filing and payment obligations), and enforcing timely collection of overdue taxes, are key to ensuring that large taxpayers stay current with their tax liabilities and preventing the growth in the stock of tax arrears.

The IMF recommends that for an LTU to be able to pursue delinquent taxes effectively, the tax administration authorities ensure that the following elements of a collection enforcement program are in place:[27]

- a separate and specialized collection enforcement division within the LTU responsible exclusively for monitoring tax arrears and pursuing delinquent taxpayers;
- standard and transparent procedures, including notifying delinquent taxpayers, determining payment schedules, and imposing a levy on delinquent taxpayers' assets;
- sufficient skilled collection enforcement officers;
- an arrears monitoring system to allow the LTU to target its collection efforts and to identify those arrears that are recoverable, those that could be subject to payment agreements, and those that could be written off;
- the necessary legal powers to allow the tax administration (and the LTU) to pursue delinquent taxpayers (including to seize physical and liquid assets, for example, bank accounts, from delinquent taxpayers, and to seize third-party assets, for example, accounts receivable of delinquent taxpayers), negotiate reasonable payment agreements, and write off unrecoverable tax debts; and
- an appropriate system of sanctions and penalties that will discourage taxpayers from declaring and paying their taxes after the established due dates.

Of course, a key to the effectiveness of any collection enforcement is also the tax administration's willingness to recover overdue tax debts quickly and aggressively, and the government's support for the work of collection enforcement officers.

In the countries that provided arrears data in their survey responses, several trends are clear. Establishment of the LTU in the central and eastern European countries (Bulgaria, Hungary) has been accompanied by a fall in the overall level of tax arrears and, in Hungary, by a sustained low level of tax arrears (i.e., around 0.1 percent of LTU collections). In Bulgaria, large taxpayer arrears fell from about 39 percent of LTU collections in 1998 to 22 percent of LTU collections in 1999. In both countries, the level of tax arrears for the large taxpayers is considerably lower than that for the rest of the taxpaying population.

In Latin America, various trends are apparent. In Argentina, large taxpayer tax arrears have not markedly fallen, but during a period of economic instability that ended in a recession (1997–99), they remained constant. In Bolivia, large taxpayers' tax arrears as a percent of LTU collections decreased steadily during the second half of the 1990s, dropping from 12.8 percent to 4.4 percent of LTU collections between 1995 and 1999. In Colombia, large taxpayer arrears increased from 3.3 percent to 5.9 percent of large taxpayer collections between 1997 and 1999, a period that coincided with a sharp downturn in the economy. In all three cases, Argentina, Bolivia, and Colombia, a much lower ratio of tax arrears to collection can be observed for the large taxpayers in comparison to the overall taxpayer population. This might suggest that the LTU has been effective in enforcing collections and promoting compliance for the large taxpayers. It also may reflect that large taxpayers generally have a better cash flow than medium-size and small taxpayers, and are thus in a better position to pay their declared tax obligations.[28]

Tax arrears trends for the large taxpayers in most of the countries of the Baltics and the CIS that responded to the survey are quite different. In Azerbaijan, Georgia, and Moldova, tax arrears for the large taxpayers as a percent of LTU collections increased during the period 1997–99, reflecting the poor financial condition of most of the large taxpayers (which are primarily state-owned enterprises), the pervasive nonpayment problem, and the downturn of these economies following the Russian crisis in 1998. In addition, the LTUs in these countries still face major organizational, legal, and procedural barriers that

[27]These recommendations are also valid for the tax administration as a whole, not only for the LTU.

[28]There may be other factors that have affected the reduction in tax arrears, including, for example, the arrears reduction program that was undertaken by the Hungarian tax administration (APEH) during the late 1990s. The APEH assigned, for a fee, the recovery of delinquent taxpayers' assets to external companies that, due to their skills and proficiency in recovering outstanding debts, were able to collect the outstanding tax due more effectively. The result was a major reduction in the stock of outstanding tax arrears.

prevent them from enforcing collection of tax arrears effectively. As indicated in Appendix Table A10, enforcement agencies other than the tax administration (i.e., the tax or financial police) play a primary role in enforcement. Even when efforts have been made to incorporate these agencies into the LTU's organization (as in Moldova), coordination remains a problem; these agencies often do not follow modern tax collection enforcement procedures, and there are legal and procedural barriers that prevent the LTU from carrying out standard collection enforcement actions.

This is not the case with the LTU in Latvia, which has been able to achieve a steady decrease in large taxpayer arrears, from 31.6 percent of LTU collections in 1995, the year it was introduced, to 8.7 percent of LTU collections in 1999. Large taxpayer arrears have also been consistently lower than those of the rest of the taxpayer population, which averaged about 30 percent of domestic tax collections for the period 1995–99. The Latvian LTU does not rely on a separate enforcement agency to enforce collection; instead, the "legal and consultation" division within the LTU carries out this work.

Staffing, Salaries, and Benefits

Suitable staffing, as well as a proper structure of salaries and benefits, is critical to the success of an LTU, as it is for the tax administration as a whole.

One of the first decisions the tax administration's management must make is the type of skills and number of staff needed to run the LTU effectively. In general, there should be enough LTU personnel to staff properly each functional area, such as returns and payment processing, audit, collection enforcement, computerized information systems, and taxpayer services. On the one hand, there need to be sufficient LTU staff to perform each role effectively; on the other hand, overstaffing the LTU will complicate its management and prevent proper coordination across functions.

As Appendix Table A11 shows, the total number of LTU staff varies greatly across countries, depending on the number of large taxpayers in the system and the types of functions carried out. For example, if banks process tax returns and payments, or if the tax administration outsources computer services support, this will tend to reduce the number of tax administration staff required. Generally, the countries with more large taxpayers (e.g., Mexico) have more LTU staff. However, given the differences in the organization and functions of LTUs in developing and transition countries, administrators should take care not to make direct cross-country comparisons and assume there is an "ideal" number of LTU staff. Staffing decisions should be made on the basis of the specific organization, responsibilities, and functions of each large taxpayer operation, and on the financial and personnel resources available in each country.

A major question that tax administrations across the world face is how to structure their salary and benefit systems to attract and maintain appropriately skilled tax administrators, including those that staff the LTU. For example, as mentioned previously in the discussion on audit, the IMF recommends that because of the degree of complexity and sophistication of the largest taxpayers, tax administrations ensure that LTUs organize their audit operations around industries (e.g., banking and finance, energy, telecommunications, etc.). This means training auditors so they gain industry-specific knowledge and skills. If the tax administration's salary scale is broadly competitive with market salaries for similar professions, recruiting and keeping specialized staff may not be a problem. However, the salary and benefit systems of tax administrations in many developing and transition countries are woefully inadequate. They not only prevent the tax administration from attracting and keeping sufficiently qualified personnel, but often encourage corrupt practices, as poorly paid tax administrators seek other ways to compensate for their low salaries.

As indicated in Appendix Table A12, the salaries and benefits of LTU staff in most of the countries surveyed do not differ from those of the rest of tax administration staff. However some countries, particularly those in the Baltics and the CIS (Georgia, Latvia, Moldova) have introduced higher salaries and/or bonuses for their LTU staff.[29] Incentive structures tend to differ significantly. For example, in Latvia the authorities report that the LTU staff salaries are fixed at a level higher than the rest of the tax administration staff, and that this information is known to the public. In Moldova, however, additional bonuses received by LTU staff depend on additional amounts of tax assessed and collected, and may vary significantly over time. Because experience in many countries has shown that such incentive structures may lead to irregular tax administration practices (e.g., overassessment of taxes owed, taxpayer harassment), the IMF tends to discourage countries from adopting such systems. Instead, it is preferable to adopt a transparent, predictable structure of salaries and benefits to attract and keep qualified staff.

[29]The Australian Tax Office, the General Directorate for Tax and Customs Administration of the Netherlands, and the New Zealand Inland Revenue Department offer more beneficial salaries and/or benefits to staff who administer the largest taxpayers. Australian tax officials indicate that this is "by virtue of higher qualifications required to deal with the level of complexity of the large taxpayers," and because these positions have a higher classification.

III Review of LTU Performance

This section reviews the performance of LTUs in selected countries in five regions (central and eastern Europe; the Baltics and the CIS; Africa; Asia and the Pacific; and Latin America). The effectiveness of the LTUs in these countries is first assessed on the basis of a set of general indicators that reflect the main advantages and risks associated with LTUs.[30] The experience of individual country LTUs in each region is then discussed, including the authorities' own assessment of the effectiveness of their large taxpayer operations.

One of the main difficulties with reviewing LTU performance in the countries surveyed is the lack of accurate and consistent performance indicators that can be compared across countries and over time. To review the effectiveness of LTUs, an ideal approach would be to compare the compliance performance of the large taxpayers before and after the LTU was established. This, however, would be difficult, if not impossible, in many developing and transition countries where tax administration data are of poor quality. Also, in some of those countries tax administrators only began to compile performance information regularly for the large taxpayers (e.g., timeliness of submission of tax returns and payments, stock of tax arrears, audit coverage, audit productivity, and timeliness of VAT refunds) once the LTU was established. Despite the improvement in the quality of data on large taxpayers that can be observed in many countries that have established LTUs, unfortunately several countries in this study provided only partial answers to the survey questions, either because the LTU is a recent phenomenon or because management reporting systems require improvement.

Advantages and Risks of LTUs

Main Advantages

An LTU can be a major factor in improving the effectiveness of the tax administration. For example, in several African, Latin American, and transition countries, introducing modern systems and procedures in an LTU has significantly improved tax collection performance. In Bulgaria and Latvia, the LTU has helped reduce the stock of tax arrears substantially.

Establishment of an LTU has also been shown to increase large taxpayers' compliance with the major taxes, especially the VAT. Indeed, a VAT survey undertaken by FAD in 1999 showed that countries with LTUs have generally performed better in terms of VAT revenue collections than those without an LTU.[31]

In many countries (e.g., Bolivia, El Salvador, Hungary, Uganda), establishing LTUs has also paved the way for major tax administration modernization programs.

Particularly in countries where taxpayer compliance is low, implementing a special unit aimed at improving the compliance rates and tax collection performance of the largest taxpayers can also be an important signal to the taxpaying public of the government's commitment to enforcing the tax laws. In Russia, for example, closer monitoring and enforcement of the largest taxpayers' tax obligations has helped to reverse the trend of generalized noncompliance among taxpayers.

Main Risks

One of the main risks in implementing an LTU as a pilot project to modernize tax administration is that of creating a "parallel" tax administration. This may pose problems in coordinating LTU operations with other tax offices, and may affect local office staff morale. In many transition countries, local offices have resisted the implementation of an LTU because they consider their role will be significantly diminished by its existence. To address these concerns, senior management of the tax administration must ensure that the large taxpayer operations are well integrated and coordinated with those of the rest of the tax administration. Also, the tax administration reform strategy must include measures to improve the

[30] These indicators reflect the answers provided by the countries in the LTU surveys, as well as the evaluation provided by IMF staff and experts who are familiar with LTUs in the different countries.

[31] The survey results are presented by Ebrill and others (2001).

operations of other tax offices and provide a clear vision how to extend reforms eventually to the entire tax administration.

In other countries, creating a new (taxpayer-based) structure, without other changes to its (function-based) structure has sometimes created problems. The preferred approach is to reorganize the entire tax administration on a taxpayer-segment basis (i.e., large enterprises, small and medium-size businesses, and other taxpayers), but to retain the functional arrangements within the segments. Another, more limited, option is to create a special unit at headquarters to supervise the LTU and coordinate its operations with those of the other field offices.

Another potential problem, especially in countries that do not have a tradition of a strong, professional tax administration, is that there may be political interference in the day-to-day operations of the LTU. The concentration of important and often sensitive cases (enterprises with large amounts of arrears, wealthy businessmen well-connected with senior government officials, etc.) in one unit may increase the risk that political pressure will be brought to bear on the staff of the LTU. Moreover, the concentration of wealthy businesses under the jurisdiction of a single unit may also increase the risks of corruption, unless the operations are closely supervised.

One risk in establishing LTUs in some countries is overemphasizing control of the largest and most important taxpayers and paying less attention to the rest of the taxpayer population—which has led to charges by the large business sector that they bear the brunt of the tax burden. The fact that the LTU may help control compliance of the largest taxpayers should not result in the neglect of medium-size and small taxpayers. To address this risk, setting up an LTU should be part of a more comprehensive reform and should include measures to improve the administration and increase compliance enforcement of medium-size and small taxpayers.

Another inherent risk in establishing an LTU is assigning too many large taxpayers to too few offices, compromising the effectiveness of the LTU. Often, an LTU is established and operating, and its initial performance is good (i.e., filing and payment compliance of the largest taxpayers increases, and tax revenue flows improve). Then tax officials are sometimes tempted to increase the number of taxpayers under the control of the LTU, without a commensurate increase in the number of LTU staff and logistical support. This can weaken the effectiveness of the LTU in monitoring large taxpayer compliance with filing and payment requirements, enforcing collections, and auditing the large taxpayers.[32]

In Tables 3.1 and 3.2, the overall performance of the LTUs in selected developing and transition countries is reviewed in light of the advantages and risks described above. Individual country reviews are based on (1) data from country officials in each country survey; (2) information from FAD experts in the field who have been providing technical assistance to the tax administration authorities with LTU implementation; and (3) assessments by FAD tax administration staff who have been involved in establishing and/or monitoring the progress of LTUs in the countries surveyed. Table 3.1 shows how well countries have demonstrated the advantages of LTU systems. It indicates their improved effectiveness in terms of increased tax collection performance and a reduced stock of arrears for the largest taxpayers, and improved large taxpayer compliance with the major taxes (e.g., compliance with their filing and payment obligations). It also indicates whether the LTU facilitated modernization of a tax administration, and whether the LTU has successfully signaled to taxpayers the government's commitment to enforcing the tax laws. The following grading system is used: 1=strong performance according to the above indicators, 2=fair, 3=poor, and 4=too early in the process to tell.[33]

Table 3.2 summarizes countries' LTU performance in terms of the main risks described earlier. Risks include the creation of a "parallel" tax administration; no modernization of procedures for medium-size and small taxpayers; political interference in the day-to-day operations of the LTU; excessive control of the largest taxpayers and lack of attention to the rest of the taxpayers; resistance from the local offices to the LTU and the transfer of large taxpayers to the LTU; and too many large taxpayers assigned to one or a few LTUs. The following grading system indicates the extent to which these risks are evident in each case: 1=no reflection of this indicator, 2=there is some indication that this may be the case, 3=definitely reflects this indicator, and 4=too early to tell.

Review of LTU Effectiveness by Regions

Central and Eastern Europe

Relatively few central and eastern European countries have so far established specialized operations to ensure large taxpayer compliance. Several

[32]In some countries, under exceptional circumstances, another risk may be the personal security of LTU staff.

[33]This refers to cases in which the LTU has operated for only 6 to 12 months, a period considered too short to gauge the effectiveness of new systems and procedures.

Table 3.1. Indicators of LTU Performance in Selected Countries (Advantage Indicators)[1]

Country	Improved Effectiveness of Tax Administration: Improved collection performance	Improved Effectiveness of Tax Administration: Reduced stock of arrears	Increased Taxpayers' Compliance with the Major Taxes	Facilitated Implementation of Tax Administration Modernization Project	Signaled to Taxpaying Public Government's Commitment to Enforcing Tax Laws
Central and Eastern European Countries					
Bulgaria	1	1	2	2	2
Hungary	1	1	1	1	1
Baltics and the Commonwealth of Independent States					
Azerbaijan	2	3	2	2	3
Georgia	2	3	2	2	3
Latvia	1	1	1	n.a.	1
Moldova	3	3	2	2	2
Tajikistan	4	4	4	4	4
Ukraine	4	4	4	4	4
Africa					
Benin	1	1	1	1	1
Burkina Faso	1	2	1	2	1
Cameroon	1	2	1	1	1
Kenya	1	2	1	n.a.	1
Togo	1	1	1	1	1
Uganda	4	2	2	2	4
Asia and Pacific					
Philippines	2	2	4	2	2
Sri Lanka	2	3	2	3	3
Latin America					
Argentina	1	2	2	2	2
Bolivia	1	1	2	2	2
Colombia	2	3	2	3	3
Ecuador	3	...	3	3	3
El Salvador	2	...	2	2	2
Paraguay	3	...	3	3	3
Peru	2	...	2	2	1
Uruguay	1	...	1	1	1

[1] 1=strong performance according to the above indicators; 2=fair; 3=poor; and 4=too early in the process to tell.

tax administrations in this region have given priority to consolidating all their operations in one organization (especially the countries of the former Yugoslavia, where a central government payments agency handled the bulk of tax collection). Slovenia and the Former Yugoslav Republic of Macedonia have worked on introducing the VAT. Only in Bulgaria and Hungary have the tax administration authorities focused strategically on the large taxpayers as a way of improving taxpayer compliance, modernizing the tax administration, and ensuring a more stable flow of tax revenue. More recently, the authorities of Albania, Slovakia, and the Federal Republic of Yugoslavia (FRY), Republic of Serbia, have also decided to begin establishing large taxpayer units.

Interestingly, in the transition countries, the successful implementation of an LTU appears to have gone hand in hand with progress in macroeconomic stabilization and other structural reforms, including tax policy reforms. Hungary and Latvia, in the group of leading transition countries, have also had the most success with LTU implementation. Bulgaria, whose LTU was initially weak but has subsequently improved, lagged behind other countries earlier in the transition, but has followed through more strongly with macroeconomic stabilization and structural reforms in recent years.

Table 3.2. Indicators of LTU Performance in Selected Countries (Risk Indicators)[1]

Country	Creation of Parallel Tax Administration	No Modernization of Procedures for Medium-Size and Small Taxpayers	Political Interference in Day-to-Day Operations of LTU	Excessive Control of the Largest Taxpayers and Lack of Attention to the Rest of Taxpayer Population	Resistance from Local Tax Offices to LTU and Transfer of Large Taxpayers to LTU	Too Many Large Taxpayers Assigned to One or a Few Large Taxpayer Offices
Central and Eastern European Countries						
Bulgaria	1	2	2	1	1	1
Hungary	1	1	1	1	1	1
Baltics and the Commonwealth of Independent States						
Azerbaijan	1	3	3	3	2	1
Georgia	1	2	2	3	3	1
Latvia	1	1	1	1	1	1
Moldova	1	2	2	2	3	1
Tajikistan	4	4	4	4	4	4
Ukraine	4	4	4	4	4	4
Africa						
Benin	1	2	1	2	2	2
Burkina Faso	1	3	1	2	2	1
Cameroon	1	2	1	1	2	1
Kenya	1	n.a.	1	1	2	1
Togo	1	2	1	2	2	2
Uganda	1	2	2	2	1	2
Asia and Pacific						
Philippines	2	3	2	1	2	2
Sri Lanka	1	3	3	3	1	3
Latin America						
Argentina	1	2	2	2	2	2
Bolivia	1	2	2	2	2	2
Colombia	1	2	2	2	1	1
Ecuador	2	2	2	2	2	2
El Salvador	1	2	2	2	2	2
Paraguay	1	2	2	2	2	2
Peru	1	2	2	2	2	2
Uruguay	1	2	2	2	1	3

[1] 1=no reflection of this indicator; 2=there is some indication that this may be the case; 3=definitely reflects this indicator; and 4=too early to tell.

Bulgaria

Establishment of the large taxpayer offices (LTOs) in Bulgaria began in 1997, as part of a broader tax reform aimed at increasing tax compliance through improved collection and enforcement activities and better services to taxpayers. The main components of the tax administration reform strategy were (1) reform of the General Tax Department (GTD) organization, systems, and procedures, with priority implementation of these new systems in five LTOs; (2) significant improvement in VAT administration (including VAT registration, filing and payment procedures, collection enforcement, refunds, and VAT audits); (3) coordination of the GTD, social security, and customs administrations; and (4) computerization.

Initial problems arose with implementation of this reform, as it did not focus on the correct priorities, GTD management commitment was weak, and preparations were inadequate. The reorganization strategy followed a bottom-up approach (giving priority to restructuring field offices) instead of a top-down approach (giving priority to restructuring headquarters and strengthening the LTOs). As a result, headquarters' capacity to direct and support the operations of the LTOs and field offices was weak.

Between 1998 and 2000 some of these problems were addressed and the LTOs improved their performance. From 1998 to 1999, tax collection through the LTOs increased from 44 percent to 51 percent of domestic tax collections, and tax arrears fell from 17 percent to 11 percent of domestic tax collections. Nevertheless, the LTO structure still required strengthening and streamlining, and resources needed better allocation for the LTOs to operate properly. In 1999, the LTOs controlled the obligations of some 842 large enterprises, which accounted for about 51 percent of total tax revenue collection. By 2000, the LTOs in Sofia and four other major centers were yielding more stable revenue collection and continued to facilitate a reduction in tax arrears. In January 2000, the LTOs' new organizational structure was extended to the entire tax administration.

The authorities' assessment of the LTOs, in response to the LTU survey, is as follows:

> With the establishment of LTOs the effectiveness of revenue collection and large taxpayers' compliance has improved, the amount of arrears has decreased and the quality of services provided to the large taxpayers raised. There were very sound reasons for the establishment of the LTO and these reasons are as important today as they were three years ago. The large taxpayer offices were set up to secure revenue and improve collection and arrears management. A small number of taxpayers, 842, pay over 51 percent of the total annual revenue to the budget to date. According to the latest indicators, currently 3.9 percent of the staff of the tax administration deal with 842 taxpayers that provide more than half of the revenue to the state budget. The procedures along different functions in the "Large Taxpayer Offices" do not differ from those in the rest of the territorial tax directorates. The LTOs provide services to a small number of taxpayers, therefore these services are of better quality. With respect to enforced collection, prompt and effective enforcement measures are undertaken against the largest debtors to the state budget. The largest debtors to the state budget considerably reduced their tax liabilities.

Hungary

Hungary's experience with a large taxpayer unit has been one of the most successful among the transition economies. A major contributing reason for this success is that the LTU was part of an overall tax administration reform strategy aimed at clearly defining the mission of the tax administration and introducing long-term improvements in the efficiency and effectiveness of the entire tax administration. A major modernization of the tax administration was required to meet the demands of a growing private sector and a rapidly changing economy. In addition, the tax administration devoted the necessary resources, particularly well-trained and motivated staff, to the LTU. The key objectives of the tax administration modernization project that started in 1994 were (1) replacement of the personal identification number with a standard taxpayer identification number, (2) allocation of non-tax activities to other organizations, (3) separate management of large taxpayers, (4) modernization of cash management and decentralization of tax accounts, (5) early detection and collection of large arrears, (6) a significant reduction in the number of tax returns, and (7) enhanced audit effectiveness.

In 1996, the year that the large taxpayer unit was established, the tax administration authorities defined the LTU's role in the tax administration as follows: (1) to ensure the collection of tax revenues by strict monitoring and control of the most important taxpayers, (2) to react promptly to delinquencies and arrears, (3) to improve customer service, and (4) to improve the professional standards of audit and control.

The Hungarian LTU administers some 470 taxpayers (all the large taxpayers are in the greater Budapest area) and accounts for about 42 percent of domestic tax collection. It is a "full-service" office and as such is organized according to the major tax administration functions, including returns and payments processing, audit, collection enforcement, and taxpayer services. Between 1996 and 1999, tax revenue collection for the LTU increased by about 40 percent, and grew from about 32 percent of total tax collection in 1996 to about 42 percent of total tax collection in 1999. Because of improved compliance controls for the largest taxpayers, there are few delinquent taxpayers: about 3 percent in 1999.

The Hungarian tax authorities consider the LTU a major contributing factor to improving the effectiveness of tax administration:

> Setting up the LTU was a major and all-important step from the viewpoint of implementing a service-based tax office model. This made it possible that taxpayers which, due to their size and strategic position, contribute most significantly to budgetary state revenues could be handled separately at an independent directorate, and that the level of their taxation services—including the prompt processing of returns, permanently updated current account and information—could also be raised to a large extent. The novel and more direct contact system between the LTU and taxpayers has made our control/audit work also more efficient, which means that
>
> - In our controlling activity we were able to enhance our performance in terms of the use of unit resources both in value and in kind.

> - The more efficient control/audit has greatly contributed to a higher voluntary legal compliance, which it was possible to measure also in terms of the submission of self-audits in large numbers and in large value by our taxpayers.
> - Taxation morale is better at tax subjects belonging to the LTU, only a single criminal report was presented over the last five years.
> - Owing to the development of the information technology system, a new expert system supporting control and audit has also been integrated to overall control and audit work (Escort-system).
>
> The set-up of the LTU is a success story by any standards. The usual initial difficulties due to reorganizations, such as the adjustment of personnel, material and objective requirements, have been tackled, without there having been any major hitch in the course of our activity.

The Baltics and the CIS

The performance of the LTUs in this region, most of which have been established fairly recently, has been mixed.

Establishment of the LTUs has resulted in some improved monitoring of the largest taxpayers and in the provision of better taxpayer services. The tax authorities of Azerbaijan noted, for example, that "Establishment of the LTU has been successful in terms of improving the effectiveness of tax administration, revenue collection, and resolving large taxpayers' problems. Also, taxpayer services improved very much." This sentiment was echoed by accountants representing several large taxpayers, who indicated that taxpayer services offered by the LTU, although still deficient, were considerably better than those provided by the local tax offices. In Moldova, an attempt has been made to modernize some tax administration procedures in the LTU, with assistance from a resident IMF advisor (e.g., audit techniques, collection enforcement methods) and to improve the skill levels of tax officials responsible for administering the large taxpayers. The Moldovan tax authorities noted that

> During the first nine months of 2000, large taxpayers paid 731 million liu into the budget, around thirty percent more than during the same period in 1999. As a result of our implementation of the strategy of collection against current payment as recommended by [the IMF advisor], 94.4 percent of assessed amounts were paid into the budget during the first nine months of this year, compared to 60 percent in the first nine months of 1999.

Despite some positive results reported by the authorities, in general the countries surveyed in the region (except for Latvia) have not established full-fledged LTUs based on modern tax administration procedures. Local offices have often resisted transfer of the large taxpayers under their jurisdiction to specialized offices charged with administering the largest taxpayers. Government support for establishing large taxpayer operations, providing them with appropriate staffing and resources, and giving them the political backing needed to enforce compliance from the largest taxpayers, has been weak. As a result, the LTUs in these countries have not been as effective as they could have been with the proper organization, procedures, staffing, and government support for their operations.

Azerbaijan

In Azerbaijan, the LTU accounts for about half of domestic tax collections. However, it is not a national unit responsible for administering all large taxpayers. Rather, it is broken down into several units: the headquarters office operates as the main unit and specializes in the oil sector, while the other "large taxpayer units" consist of a few tax officials in three local tax offices in the capital city who monitor compliance by the large taxpayers in other sectors. The LTU is not fully organized along functional lines, and lacks the power to enforce collections, and as a result large taxpayer arrears have been increasing steadily.[34] Basic procedures, such as the recording of filing and payment data, the calculation of penalties and sanctions, payment controls, and enforcement and audit procedures, are not significantly better than those carried out by the local offices, which have many shortcomings. Also, more and better-trained staff are needed to ensure effective administration of the large taxpayers.[35]

Georgia

In Georgia, although the Large Taxpayer Inspectorate (LTI) has been collecting at least 50 percent of total tax revenue since mid-1999, overall tax collection has been stagnant at 13 to 14 percent of GDP. The LTI's systems and procedures tend to be based on 100 percent control of all taxpayers, regardless of their level of compliance. Compliant taxpayers are visited frequently for purposes of verifying their tax

[34]Large taxpayers' tax arrears as a percent of taxes paid by the large taxpayers increased from 38 percent in 1997 to 379 percent in 1999.

[35]More recently, however, there has been progress on a number of fronts: an LTU structure was adopted that centralizes administration of all large taxpayers in one unit; the unit is now organized by functions, and training is envisaged to improve LTU staff skills in a number of specialized areas.

Box 3.1. Large Taxpayer Compliance Operations in the Russian Federation

Ministry of Taxation: Large Taxpayer Units

Organizational arrangements: A headquarters-based large taxpayer unit performing both national management and some operational functions, and a number of interregional and regional large taxpayer inspectorates in the Federation.

Date created: Late 1998.

Reason for creation: Improve tax collections, reduce incidence of tax arrears.

Initial criteria for identification of companies to be included in the LTUs: Special companies (so-called "natural monopolies") and others satisfying combination of criteria based on turnover, taxes paid and owed, and assets.

Legislative framework: Changes were made to part one of the tax code enabling the ministry of taxation to direct where these taxpayers would be required to register, file returns, etc.

Number of taxpayers initially included in the LTUs: 23,600, with subsequent reduction to about 8,000.

Taxes assessed in 1999 to the federal budget (representing about 48 percent of total taxes paid at the consolidated government level): 300 billion rubles assessed; 247 billion rubles paid (representing 68.4 percent of total federal budget revenue).

Enforced tax collection (only taxes owed to the federal budget): Total tax arrears (end-1999): 162 billion rubles. Total penalties and interest (end-1999): 151 billion rubles. Results from enforced collections action: 80 billion rubles (about 30 percent of total collections for 1999), of which 60.4 billion resulted from demand action, 9.0 billion from collection orders to banks, 1.33 billion from seized cash, and 1.3 billion from sale of seized property.

Special monitoring arrangements: Daily monitoring of the very largest taxpayers, including those in the oil and gas, electricity, and railway sectors. Special agreements established for payment of full liabilities in cash. During 1999, substantial progress was achieved in increasing the level of cash payments received from this group of companies. For example, in January 1999, oil companies were on average meeting only 23 percent of their assessed liabilities. By year-end they were paying their assessed liabilities in full. For railways, payments amounted to 102 percent of assessed liabilities in 1999, compared with 83 percent in 1998.

Future directions: The minister of taxation and others have confirmed in their recent statements that special organizational arrangements for the largest taxpayers, with a focus on particular industry sectors, are an integral feature of future developments in tax administration. Under consideration is the creation of a federal tax district in which the largest taxpayers conducting business over the whole of Russia would have to register.

Source: IMF staff.

obligations, and in some cases have been requested to make additional advance payments to ensure that the LTI achieves its monthly revenue targets. Selecting large taxpayers is an ad hoc process based on information provided by the regional tax offices, rather than a systematic selection based on established turnover levels.[36] As a result, many small taxpayers have been misclassified as large taxpayers and many large taxpayers continue to be supervised by the regional tax offices.

Latvia

Of the countries participating in the survey, Latvia's experience with establishing an LTU has clearly shown the most positive results in the region. The LTU accounted for about 30 percent of domestic tax collections in 1999. The tax collection performance of the largest taxpayers has improved steadily from the time the LTU was established in 1995. Large taxpayers' tax arrears as a percent of tax collected for the largest taxpayers decreased from 31.6 in 1995 to 8.7 in 1999, a significant drop. The stop-filing rate for the large taxpayers in 1999 was 0.5 percent, indicating a high compliance rate with filing obligations. These positive results may be attributable partly to the fact that, in contrast with other countries surveyed in this region, the unit is a full-fledged LTU—responsible for all tax administration functions associated with the large taxpayers, including filing and payment processing and monitoring, audit, collection enforcement, and taxpayer services. Also, the government and tax administration authorities have fully supported the LTU's establishment from its beginning.

Asked about the effectiveness of the LTU, the Latvian tax authorities commented:

> The establishment of the LTU has been successful, and this is confirmed by the annual growth of tax revenue, dynamics of the audit results, improvement of enforce-

[36]However, the authorities have recently taken steps to introduce more systematic and transparent selection criteria.

ment methods, and especially, service to taxpayers. There is a high taxpayer compliance level in the LTU, considerably higher than for the other taxpayers. Returns are submitted 100 percent within the term stated by the law.

Moldova

In Moldova, an LTU was established in early 1998 to improve tax collection from the largest taxpayers nationwide. By end-1999, taxes collected by the LTU accounted for approximately 46 percent of domestic tax collections. Despite some of the positive results obtained in 2000, there are problems with the LTU. The unit's functions are limited to audit and enforcement. Filing and payment procedures are administered at the local office level because the local offices have been unwilling to transfer the large taxpayer files to the LTU. Despite some steps undertaken in 1999 to improve its management, premises, and equipment, the unit does not count on the active support of finance ministry officials, who are skeptical about the need for such a unit.[37] As a result, the administration of large taxpayers is fragmented among various services, with local tax offices still responsible for basic filing and payment procedures and the financial guard for enforcing payment of tax arrears. Added to the lack of active government support for the LTU's operations, this fragmentation has compromised the unit's effectiveness.

In the case of Tajikistan and the Ukraine, which established their LTUs in 1999, insufficient time has elapsed for an effective evaluation. Box 3.1 describes the large taxpayer compliance operations in the Russian Federation.

Africa

Many African countries established LTUs during the 1990s to focus their limited tax administration resources on strengthening control of large taxpayers' obligations, while reforming their tax collection systems and improving the tax administration's organization and procedures.

However, setting up LTUs in English-speaking African countries has differed in important ways from the French-speaking African countries. In most of English-speaking Africa, a separate VAT department exists in addition to the general tax administration. The existence of separate tax departments has made it more difficult to establish large taxpayer offices responsible for administering all domestic taxes. The two exceptions are Uganda and Kenya, which have revenue authorities and therefore have one commissioner general responsible for the control of all taxes.[38]

Most of the West and Central African French-speaking countries have implemented LTUs as components of an IMF program. For these countries, the aim of establishing an LTU was to secure collections and support implementation of tax policy reforms, especially the introduction of a VAT. The LTU was also used to develop new procedures and systems that could be replicated in other tax offices later.

Benin and Togo

In Benin and Togo, the establishment of an LTU as part of the tax policy and tax administration reform of the early 1990s paved the way for a significant revenue increase (from 7–8 percent of GDP in 1989–90 to 12–13 percent of GDP in 1994–95 in both countries). By 1999, the LTU in Benin accounted for about 92 percent of domestic tax collection, and the LTU in Togo represented about 81 percent of domestic tax revenue. In both countries, establishment of the LTU clearly supported the introduction of a VAT, given that most VAT payers were large taxpayers, and as such were exclusively monitored by the LTU.[39] Establishment of an LTU was also used as a vehicle to modernize obsolete collection procedures, which helped improve collection enforcement performance.[40]

In their response to the large taxpayer survey, the tax authorities in Benin stated that they have seen several benefits from establishment of the LTU:

Filing and payment is in the same place.

- A single file provides a complete view of the enterprise, making oversight easier and allowing for ongoing monitoring.
- Owing to the automatic reminder notice system, there are fewer and fewer nonfilers.

[37]Some officials have indicated that lack of support for the LTU stems partly from the suspicion that it may facilitate corrupt practices among taxpayers and tax officials.

[38]The IMF has recently recommended establishment of an LTU in the Democratic Republic of Congo, Eritrea, and Ethiopia.

[39]The turnover threshold above which taxpayers are required to register for the VAT is similar to that used as a criterion for reporting to the LTU.

[40]In the early 1990s, a common feature of tax administration in French-speaking countries was the split of main functions between two separate agencies: the tax department responsible for assessment and audit, and the treasury, responsible for collection and enforced collection. Transferring the collection function to the tax department, beginning with a small number of large taxpayers, was therefore a critical step in improving tax administration in these countries.

• In terms of performance, LTU files are better maintained and processed, compared with files for other tax regimes, managed by other tax units.

The Togolese tax authorities have similarly observed concrete improvements in tax administration stemming from establishment of the LTU:

> The creation of the LTU has resulted in improvements in the efficiency of the tax administration, tax collection, and with respect to tax obligations of large enterprises. With the creation of the Large Enterprise Tax Center (CDIGE), the tax administration has equipped itself with computer tools (workstations and tax management software). Officials assigned to the unit have been trained in the use of the various software modules. The installed software makes it possible to send real-time reminder notices to delinquent taxpayers, by issuing demands for tax returns, ex-officio assessments, and notices of assessment. The software also makes it possible to identify taxpayers with balances owing and to carry out collection activities. In addition, various statements can be produced in real time.
>
> There is a cause-effect relationship in the computerization of the revenue function. Revenue collection improves with the issuance of real-time reminder notices to non-filers and taxpayers with balances owing. The statistics available show that the CDIGE accounts for approximately 90 percent of total revenues of the General Tax Directorate (Direction Générale des Impôts, or DGI).
>
> The capacity the software provides of sending out systematic reminder notices has made large taxpayers more disciplined in respect of their tax obligations. For example, for the VAT, the rate of self assessment and filing by taxpayers in the other tax centers is currently estimated at about 20 percent, while the rate for the CDIGE is around 90 percent. These improvements enable us to quickly identify late- and nonfilers and taxpayers with balances owing and to apply the appropriate penalties. Garnishment orders (to seize third-party assets) are sent to long-standing offenders. The combination of all these coercive measures has encouraged large enterprises to better respect their tax obligations. For other taxpayers not covered by automated reminder notice systems, the period of nonpayment is longer.

Burkina Faso

Establishment of an LTU in Burkina Faso in 1994 helped yield a revenue increase similar to Benin and Togo; domestic tax revenue increased to CFA 103.9 billion (about 6.5 percent of GDP in 1999) from CFA 40.6 billion (about 3.9 percent of GDP in 1994). In 1999, LTU collections accounted for about 84 percent of domestic tax collections. However, because of the lack of resources, modern collection procedures and organizational changes introduced in the LTU have not yet been fully duplicated in tax offices that administer small and medium-size taxpayers.

In response to the large taxpayer survey, tax officials in Burkina Faso attributed the tax revenue increase to the establishment of the LTU system:

> An important increase in domestic tax revenue from 1994 to 1999 (from 40.6 million to 103.9 million), would not have been achieved without the two large taxpayer units, one in Ouagadougou and one in Bobo-Dioulasso.
>
> The close monitoring of the large taxpayers by an integrated structure staffed by skilled officials allowed the tax administration to secure tax revenue and to ensure a greater degree of uniformity in the application of the tax laws, which contributed to improving tax compliance.

Kenya

The Kenya Revenue Authority (KRA) established a Large Taxpayer Office (LTO) in 1998, and currently, it has a staff of 52 (42 in audit and 10 in collections enforcement). The LTO is responsible for the 600 largest taxpayers, including the top 30 excise licensees, 200 largest VAT payers, and corporate income taxpayers with an annual turnover exceeding K sh 500 million. Also included, regardless of size, are banks, financial institutions, and certain problem taxpayers. Altogether, the LTO controls about 60 percent of total domestic tax revenue. It is not a full-service office as it does not perform revenue accounting or provide any form of taxpayer services.

The KRA has assigned highly qualified staff to the LTO, and therefore good results have been achieved through its audit and debt collection activities. For example, audit assessments for the first six months of fiscal year 2000/01 were K sh 4,127 million (260 percent of target). In 1999/2000, outstanding debts of K sh 5,380 million in income tax and VAT were collected.

The KRA is organized by type of tax (i.e., separate departments are responsible for administering income tax, VAT, and customs and excise legislation). The LTO is an exception to the organizational structure as it is responsible for audit and collection enforcement for all domestic taxes. However, it does not appear in the KRA's organizational chart. Staff are assigned to it from the other departments, and the results obtained by the LTO are reported by those departments.

In response to the LTU survey, the KRA authorities gave a positive assessment of the effectiveness of the LTO in terms of tax collection and compliance:

> Yes, the level of compliance has certainly been enhanced (e.g., revenue collection from financial institu-

tions, construction industry, and government corporations has increased considerably.) We have, however, not done much on taxpayer service.

Compliance has improved:

- Submission of end of year returns is more than 95 percent compliant compared to less than 40 percent for the rest of the taxpayers.
- Revenue in some industries, e.g., construction, financial and energy sector has improved due to close monitoring and audit.
- Submission of returns and remittance is made more regularly (over 80 percent compliant).

Uganda

Uganda's LTU was established in 1998 after many significant policy changes (e.g. rationalization of the tax regime and introduction of VAT) were implemented by the Uganda Revenue Authority (URA). The URA was created in 1991 to facilitate the reforms and integrate the organizational structures of the customs and income tax departments into an autonomous revenue agency. However, the URA consolidated the original tax-type structure further by establishing the VAT department when the tax was introduced in 1996.

In 1997, the IMF recommended a change from tax-type to functional administration, through a merger of the income tax and VAT departments. The two departments were merged in 2000 to create a single domestic tax agency, called the Inland Revenue Department (IRD). Before this, the LTU had taken the lead in adopting a system of direct payments to banks, and self-assessment, as well as a single masterfile, ledger card, and TIN for all large taxpayers. Other LTU initiatives being adopted by IRD include the fast-track refund scheme and the use of common audit and collection enforcement programs.

The authorities are concerned that the creation of the LTU has not resulted in a significant increase in revenue (the LTU accounted for about 36 percent of domestic tax collections in 1999). However, this was difficult to achieve within a short period of establishing the LTU because the URA had no integrated taxpayer databases and did not adopt uniform tax accounting, audit, and collection enforcement practices. Moreover, the URA's computerized system, already limited in scope because it applied only to the VAT, had virtually ceased to operate by 2000 because of capacity and license renewal problems. The URA's management has been keen to improve on these problems but is also concerned that computerized programs and some procedures might be unnecessarily duplicated between the LTU and the IRD for the large concentration of taxpayers in the big cities, especially Kampala.

The URA has other teething problems that need to be resolved. The LTU was classified as a department and placed under a commissioner, resulting in a mix of tax—and taxpayer—type organizations. However, it is uncertain whether URA management intended to create a parallel unit with direct line authority to the commissioner-general (and two deputy commissioners-general). This has become a critical issue with the creation of the IRD. Given the existence of the LTU, the IRD could become a small and medium-size taxpayer department rather than the overall domestic tax agency that was envisaged. The operations of the LTU are also subject to interference from some URA functional units, including internal audit, information technology, and the legal department.

Despite these problems, the authorities' overall assessment of the LTU's performance has been positive, as suggested by indicators they provided in their response to the large taxpayer survey:

Yes, LTD (Large Taxpayer Department) is successful:

- Tax Administration: direct payment to banks; mail sent within 48 hours; self assessment; objections handled on time; and fast track refunds.
- Revenue Collection: enforcement is easier on fewer taxpayers; collection figures have improved (75 percent increase in net tax collected for the large taxpayers between 1998 and 1999); additional tax was collected on completed audits; and monitoring is easier because of systems.
- Large taxpayers' compliance: visits to taxpayers and education on taxes led to increased tax; audits reveal uncollected arrears and thus increased compliance in future years; they are attending taxpayer seminars, benefiting from education programs on TV and radio.
- Compliance is at 95 percent;
- Filing and payment of VAT via direct banking: 98 percent;
- Seizures and auctions: 0 percent;
- Prosecutions: 0 percent;
- Business closures: 0 percent;
- Objections received in a year: 9 percent; and
- Stock of arrears reduced by 2 billion (nearly 20 percent, between 1998 and 1999).

Asia and the Pacific

The establishment of LTUs has not been a major tax administration initiative in the developing coun-

tries of the Asia and Pacific region. Two countries where the IMF has recommended that the tax administrations introduce special operations to control compliance of the largest taxpayers are the Philippines and Sri Lanka. In the Philippines, it is still relatively early to gauge how effective the LTUs have been in improving the largest taxpayers' compliance. In Sri Lanka, the LTU is an improvement over the previous situation, where there was no specific monitoring of the largest taxpayers' compliance. However, it has not been established along the lines recommended by the IMF, and has clearly not reached its potential in terms of improving large taxpayer compliance.

In 1997, following the IMF's recommendation, an LTU was also set up in Lao P.D.R., as a single, centralized unit. It was given exclusive authority to monitor liabilities and perform audit and collection enforcement for approximately 750 large taxpayers. However, in 1999 the authorities decided to decentralize the large taxpayer operations, as part of their program of fiscal decentralization. Unfortunately, one of the results has been a decrease in large taxpayer compliance, because the offices that are taking over administration of some of the large taxpayers lack the basic skills to monitor them appropriately. This indicates that countries undergoing major fiscal decentralization programs will face special challenges to ensure appropriate monitoring and control of the largest taxpayers.

The Philippines

In the Philippines, the new organizational unit, known as the Large Taxpayer Service (LTS), was created in late 1999 within the structure of the Bureau of Internal Revenue (BIR) headquarters.[41] The introduction of this new organizational unit, incorporating all tax administration functions needed for effective administration of these taxpayers (including an in-house banking facility), was intended to strengthen control over those taxpayers responsible for a major share of tax revenue. The strategy adopted was to create a central unit initially responsible for about 630 taxpayers (which was to be expanded over time), and then to expand the sphere of the total operation with smaller units in other major regions. Ultimately, it was expected that between 75 and 80 percent of the bureau's revenue base would be under the control of the LTS.

[41] An excise taxpayer service (ETS), including the full range of tax administration functions, was created at the same time and, for all intents and purposes, represented a parallel large taxpayer unit, albeit for excise taxpayers only. The ETS was abolished in November 2000 and its work incorporated into the LTS starting January 2001.

In the first nine months, progress was made on several fronts. Payment and filing obligations were closely monitored and generally good compliance was achieved, research was conducted to better understand the tax payment characteristics of specific industry groupings of taxpayers, important noncompliance issues were examined by small teams of officials, some new service initiatives were implemented to better support taxpayers, and a second large taxpayer unit was opened in one of the main business districts of Manila. However, after nine months, difficulties were still being encountered in fully manning the unit, the full range of computer application systems was not yet available, and the audit program had some way to go before becoming fully effective, particularly in the area of excises.

As of mid-2001, the large taxpayer operations are responsible for overseeing the affairs of some 1,000 taxpayers, representing about 60 percent of the bureau's collections. A third unit is scheduled to be opened in 2001, further expanding the scope of its operations. It is too early to draw firm conclusions about the overall effectiveness of the new arrangements, which have been affected by recent political instability.

Below is the authorities' own assessment of the effectiveness of the LTU:

> The establishment of the LTU has been successful in terms of improving the effectiveness of tax administration and large taxpayers' compliance, through the following:
>
> - The centralized venue and the direct remittance of collections to the bureau of treasury have eliminated the problem of tax scams and diversion of taxes to syndicates.
> - Taxpayers' compliance with filing and payment requirements is easily monitored. The "adopt-a-taxpayer" program has proven very effective. (In the "adopt-a-taxpayer" program, revenue officers are assigned to closely monitor tax payment deadlines and other compliance requirements of designated taxpayers.)
> - Continuity of procedures has been established, as there is a one-stop-shop to cater to large taxpayers' transactions.
> - The LTS has served as a pilot venue for tax computerization, where areas for enhancement of the BIR's Integrated Tax System (ITS) may be recognized and implemented.
> - With the manageable number of taxpayers, year-round briefings/seminars have been scheduled and are being conducted for all the taxpayers under Large Taxpayers Service (LTS) and Large Taxpayer District Office (LTDO) jurisdiction to foster taxpayer aware-

ness and encourage feedback on existing policies and procedures.

- Close monitoring of taxpayers has tremendously improved compliance and minimized deliberate postponing of tax payments.

Initial indicators of improved taxpayer compliance are as follows:

- Stop-filer accounts have been reduced to a minimal number.
- Cases of large taxpayers filing/paying outside the prescribed venue have likewise decreased from an average of 27 taxpayers (56 returns filed) per month for the period January to September 2000, to 5 taxpayers (total of 9 returns) in October 2000.

Actual collection from voluntary compliance, from January to October 2000, has increased by P3.80 billion, or 3.9 percent over actual collection for the same period in 1999 despite the slowdown in the economy, especially in the banking and real estate sectors.

Sri Lanka

The LTU was established in 1995 to improve the monitoring and control of large taxpayers' compliance with their basic filing and payment obligations. The audit and enforcement functions have been added subsequently. The LTU was initially responsible for administering about 500 taxpayers, which during the period 1995–98 represented nearly 30 percent of total tax collections.[42] The LTU now administers some 1,000 taxpayers, accounting for about 28 percent of domestic tax collection. When the LTU was established, the goods and services tax (GST) had not yet been introduced; the GST was implemented in 1998.

One of the major shortcomings of the LTU in Sri Lanka is that its mandate has not been extended to include administration of the GST, a major source of tax revenue, for the largest taxpayers. As a result, the total amount of tax revenue collected by the LTU has decreased since 1998. Also, the Inland Revenue Department has no specialized controls to ensure large taxpayers' compliance with their GST liabilities. The LTU also lacks a proper organizational structure, with audit and enforced collection functions separate from the main LTU structure and reporting to separate line managers. No systems development work has taken place since the LTU was implemented, and the LTU's computerized information system requires upgrading.

[42]The LTU collects the following taxes: CIT, PAYE, turnover tax, national security levy, and the Save the Nation contribution.

Despite these problems, the large taxpayers' compliance appears to be relatively better than the compliance of the general taxpayer population, although how much of this is attributable to the LTU is uncertain. Tax arrears are about 10 percent of total tax collection, while for the rest of the taxpayers arrears are 20 to 30 percent of tax collection.

The authorities' assessment of the LTU is as follows:

> Under the self-assessment system, it is very important to detect noncompliance early. After setting up the LTU for large taxpayers who contribute the major portion of tax revenue, compliance and revenue collection have improved. Audit coverage and collection enforcement also improved.
>
> Return compliance rate:

	LTU	Others
1998/99	92.5 percent	52 percent
1997/98	92.9 percent	52 percent
1996/97	94.9 percent	53 percent

Latin America

Latin American countries have had long experience with LTUs. Many were established at the beginning of the 1990s; in Argentina and Bolivia LTUs were established in 1974 and 1988, respectively.

When LTUs were first established, tax administration officials paid considerable attention to this new strategy. It was a way to strengthen countries' tax collection efforts, to break the cycle of poor performance of their tax administrations, and to ensure that the basic liabilities of the largest taxpayers were properly monitored. The main objective of this new focus was to ensure a consistent tax revenue flow for the budget.

The LTUs have evolved in different ways in each of the countries surveyed in this region. In general, the development of the LTUs has been closely tied to the developments of the tax administration in each country.

Argentina

In Argentina, the tax administration began to focus more strategically on the largest taxpayers in the 1970s. At the beginning of the 1990s, one of the measures taken to support this focus was to develop a new computer-based accounting system (the Sistema DOSMIL, or the 2000 System). Its purpose was to facilitate control of compliance with filing and payment obligations for the 2000 largest taxpayers. Introducing this system helped the tax administration to control more effectively nonfilers, late fil-

ers, and taxpayers who were delinquent with their tax payments. Before that, considerable time could elapse before the tax administration knew this information and was able to take action. Because of the strategic focus on the large taxpayers and the introduction of the DOSMIL system, basic controls with filing and payment requirements have improved considerably. Despite this, one of the system's major shortcomings is that it does not consolidate different payments and tax liabilities of each taxpayer into a single current account. This makes it difficult to manage a taxpayer's compliance with different tax liabilities (for VAT, income tax withholding, payment facilitation arrangements, audit adjustments, etc.) in an integrated manner.

The LTU in Buenos Aires is responsible for administering the largest taxpayers, numbering nationwide about 3,665, or approximately 0.1 percent of the total number of large taxpayers. These taxpayers account for about half of domestic tax revenue. Over the years the DOSMIL system has been progressively extended to medium-size taxpayers, and it now covers 230,000 taxpayers.[43]

Argentina is a clear case where the modernization of the organization, systems, and procedures improving the administration of the largest taxpayers was successfully used to modernize other tax offices (e.g., those largely responsible for administering the medium-size taxpayers). However, the strategy failed to reach the small taxpayers, in part because of the shortcomings of the tax administration's computerized information system. In response, the tax administration (Administración Federal de Impuestos, or AFIP) tried to address this by setting up a simplified tax regime for the smallest taxpayers.

For the last few years, the organization, systems, and procedures used to monitor and provide services to the largest taxpayers have not continued to be modernized to the extent required, although some priority has been given to the largest taxpayers. For example, audit selection criteria need to be improved, and the DOSMIL system has not been significantly modernized since its establishment in January 1991. As a result, although the LTU has helped the tax administration gain better control over the large taxpayers,[44] it has not continued to be a "motor of change" in the tax administration, nor has it reached its potential in terms of effectiveness.

Bolivia

In the last few years, the Bolivian tax authorities have improved their large taxpayer operations to ensure continued close monitoring of the largest taxpayers. (The organization and operations of the LTUs are described in Box 3.2.) For example, the new computerized information system (the Sistema Integrado de Recaudación y Administración Tributaria), was developed in mid-1998 to carry out the main tax administration functions. It was first tested and installed in the large taxpayer units, so that the largest taxpayers are controlled using the tax administration's most sophisticated technology. The LTUs accounted for approximately 60 percent of domestic tax collection in 1999. In the large taxpayer survey, the Bolivian tax authorities commented:

> Based on our assessment of the implementation of the LTU, we are convinced that it was a good initiative. The establishment of these units has allowed the tax administration to: improve tax compliance control over large taxpayers; establish a new organizational structure and procedures; and, improve management of debt collection. Our audit coverage has increased from 20 percent in 1988 to 56.7 percent in 1999. In addition, during the past two years we have been implementing a new collection system. This has enabled us to improve our control, has facilitated filing and payment by providing new services for taxpayers, and has enabled us to integrate all of the administration's operations. Since the introduction of these new systems, our operations have improved significantly, particularly the control over the collection process carried out by the banks, and the tax compliance control over the taxpayers. However, two years is not enough for a full assessment, as we are still making adjustments to the systems and our experience each day further reduces the taxpayer's ability to evade our controls.

Despite this positive performance, less progress has been made in extending the new organization, systems, and procedures of the LTUs to the rest of the tax administration, particularly to the local office level. Thus, this major challenge is in the offing, with a view to improving the administration of the medium-size and small taxpayers.

[43]There are four major groups of taxpayers in Argentina: (1) the largest taxpayers at the national level; (2) the medium-size taxpayers, which are the other taxpayers in the DOSMIL system; (3) the small taxpayers; and (4) the taxpayers in the simplified tax system (the *monotributo* system).

[44]For example, in response to the LTU survey, the tax administration authorities stated: "The establishment of the large taxpayer control system has contributed to improving the effectiveness of tax administration. The taxpayers that contribute the most (e.g., 50 percent) to total tax collection are now identified, the system allows the tax administration to monitor the large taxpayers in a specific and integrated manner, and the type of operations and the characteristics of the large taxpayers are well known. The system improves audit effectiveness because audits are grouped according to economic activity. There is also a more personalized service for the taxpayers."

Box 3.2. Large Taxpayer Compliance Operations in Bolivia

National Service for Domestic Taxes (Servicio Nacional de Impuestos Internos, SNII): Large Taxpayer Units

Background: In January 1988, the SNII established a large taxpayer unit in La Paz. LTUs were subsequently established in two other major cities, Cochabamba and Santa Cruz. Establishment of the LTUs was part of an ambitious tax reform program introduced by the Paz Estenssoro government beginning in May 1986. The reform program simplified the tax system significantly, transferred tax collection from the tax administration to the banks, assigned a new taxpayer identification number to taxpayers, updated the national taxpayer register, and computerized a number of tax administration procedures. At the same time that the LTUs were established, a special regime was set up to facilitate tax collection for the smallest taxpayers, including traders in the transport and retail trade sectors. The LTU in La Paz was the first large taxpayer office to be established and began by administering about 600 large taxpayers. From the outset, the organization of the LTUs was based on the main tax administration functions: return filing and payment processing, audit, collection enforcement, and taxpayer services. Bank branch offices were also installed on the LTU's premises to facilitate tax payment.

Role: The LTUs are "full-service" offices that administer all aspects of the large taxpayers with the exception of taxpayer registration, which is done by the local offices. Once a large taxpayer is selected by an LTU, that taxpayer's tax affairs will be handled directly by the LTU. The LTUs' main role is to ensure the stable collection of taxes from the largest taxpayers, via monitoring and control of their compliance with filing and payment obligations, audit of their operations, and enforcement of their arrears. The LTUs also provide specialized taxpayer services, including the receipt of tax returns via electronic and magnetic means, the receipt of electronic payments, and the provision of software to facilitate the electronic submission of returns and payments. The LTU system has led to (1) improved monitoring and control of large taxpayers, (2) a new organizational structure and tax administration procedures, (3) improved tax arrears management, and (4) improved taxpayer services. The LTUs play an important role in modernizing tax administration systems and procedures, such as through the recent introduction of a new computerized information system (SIRAT), which is being extended to the rest of the tax administration.

Current organizational arrangements: The LTU "system" consists of three large taxpayer units, in the major cities of La Paz, Cochabamba, and Santa Cruz. The LTUs are dependencies of the regional tax offices, but also report directly to the director of the SNII. Each LTU is structured along the same lines: there are five main divisions, including the tax control unit (audit unit); the tax operations unit (returns and payments processing); the legal affairs unit (collection enforcement and legal matters); the administrative unit; and the information systems and telecommunications unit.

Scope of taxes covered: The LTUs collect all national taxes: VAT, the corporate and personal income taxes, including withholding tax, and excise taxes. The LTU does not collect social security contributions, customs duties, or local taxes.

Taxpayers and tax paid: The largest taxpayers are chosen on the basis of the following criteria: amount of tax paid in previous tax period, annual turnover, estimated tax liability, and annual purchases. In 1999, the LTUs administered 5,578 large taxpayers, and collected approximately sixty percent of total domestic taxes.

Number of staff employed: As of November 30, 2000, the LTUs employed 180 staff, about 16 percent of total SNII staff.

Sources: The SNII's response to the large taxpayer survey; and information obtained by IMF staff who have provided technical assistance to the SNII in tax administration.

Colombia

In Colombia, the tax administration authorities have not given high priority to ensuring the continuous modernization of their large taxpayer unit, which administers about 1,500 large taxpayers and represents about 40 percent of total tax collection.[45] The LTU's operations are not significantly better than those of other local tax offices, as evidenced by the lag in follow-up actions with respect to nonfilers and delinquent taxpayers. Also, the headquarters monitoring unit, which supervises LTU operations nationwide, is weak.

Ecuador

In Ecuador, the LTU was established in 1995 (nine LTU branch offices were subsequently established). In 1999, the taxpayers administered by the LTUs accounted for about 80 percent of domestic tax collections. One of the major innovations of the LTU in Ecuador was the introduction of the automatic bank debit for the large taxpayers. It greatly facilitated tax

[45]There is one LTU in Bogotá; in other major cities a few tax officials at the local office level have been assigned to monitor the largest taxpayers in each region.

payment and obviated the need for the establishment of a bank branch on the LTU premises.

However, the recent experience of the LTU cannot be separated from the developments in the tax administration in the last few years. The National Tax Directorate (Dirección General de Rentas, or DGR) itself was completely overhauled at the end of the 1990s. The authorities responded to a problem of reportedly widespread corruption of tax officials (positions at the LTU could apparently be "bought" by corrupt officials for their personal financial gain). Of a total staff of 1,200, 30 people remained in the DGR after a staff evaluation was completed, and the new tax department (Servicio de Rentas Internas, or SRI) was created.

In their survey responses, Ecuadorian tax administration officials recognize the shortcomings of the large taxpayer operations, but at the same time suggest there is a potential for improving the large taxpayers' compliance through the LTUs:

> In Ecuador, as the LTU was not really fully operational until this year (1999), we are unable to speak of significant changes in the indicators as a result of its establishment. The unit has officially existed since 1995, but in [our] opinion only on paper, as it scarcely monitored nonfiling, and the rest of its stated functions were not performed at all. Furthermore, the criterion for the selection of large taxpayers has been reviewed, and an appropriate methodology for this is currently being developed. Nevertheless, the first impression is that in areas where previously no large taxpayer units were designated, tax collection has improved; there was an improvement in the month in which the LTU was established. Data cross-checks of information in areas where no large taxpayer units were designated did not yield satisfactory results; this means that enhanced control over the large taxpayers in the area is implicit in the establishment of the LTU.
>
> In one of our coastal provinces, collections in some cases more than doubled for enterprises identified as large taxpayers in the first month following this reclassification. We believe that this may be because they felt the reach of the tax administration, and also because the very poor taxpaying culture in this region led them to react in this way. As we indicated above, we are currently monitoring filing only, and the filing rate for large taxpayers is indeed higher than that for other taxpayers. The returns are not currently being audited, but we are working toward this objective.

Peru

In Peru, the performance of the large taxpayer units (Unidades de Principales Contribuyentes, or PRICOS) has also been closely tied to general developments in tax administration. An LTU began operating in Lima in 1982. In 1991 a major tax reform paved the way for modifying systems for controlling taxpayer compliance. An on-line system was developed in 1992; it allowed the tax administration to integrate the main tax collection functions for the largest taxpayers. Based on this new system, the LTUs in Lima and other cities were renamed PRICOS. Reform consisted of granting the tax administration (which was renamed national superintendency of tax administration, or SUNAT) greater autonomy in its financial and personnel management, modernizing tax administration procedures such as return and payment processing, audit, and enforcement, and upgrading computer systems.[46] Although a large taxpayer unit existed in Lima prior to 1992, with the tax administration reform this unit's administrative procedures were improved and computerized, and LTUs were set up in other major cities. The LTU in Lima was subsequently assigned administrative responsibility for the most important large taxpayers nationwide (Intendencia de Principales Contribuyentes Nacionales), following the Argentine model.[47] The tax administration gave a high priority to strengthening the existing LTU and setting up the new LTUs, and tax collection increased for the approximately 4,600 largest taxpayers.

In responding to the LTU survey, SUNAT officials had the following comments regarding the effectiveness of the PRICOS:

> Although the PRICOS have continued to be the main source of tax revenue, reaching nearly 90 percent of total tax revenue in 2000, the administration of the largest taxpayers has been adversely affected by recent developments in tax policy and administration. The design of the tax system has deteriorated sharply since the mid-1990s, with a proliferation of sectoral and regional tax preferences, and the SUNAT has been seriously weakened by initiatives to introduce tax amnesties and by attacks from both the government and the opposition. As is the case with the rest of the taxpayers, obstacles remain to auditing and enforcing collections from the most important taxpayers in the country, in part because tax auditors responsible for auditing the large taxpayers have not been properly trained, and in part because of political resistance to effectively controlling the compliance of the largest taxpayers. Also, in general the administration of other groups of taxpayers (e.g., medium-size taxpayers, professionals) is not as effective as for the large taxpayers.

[46]The IMF provided technical assistance in the design of the overall tax administration reform strategy, as well as subsequent long-term assistance in the use of modern audit procedures, including the implementation of massive audit programs.

[47]In 1999, the national LTU administered about 2,400 taxpayers (about 13 percent of the total number of large taxpayers), which accounted for about 65 percent of domestic tax collections.

IV Conclusions

Beginning in the 1980s, the IMF has recommended that member countries facing revenue crises establish an LTU as a means to strengthen tax administration. In addition, establishment of an LTU has allowed many countries with scarce resources to begin implementing reform measures for immediate and visible results.

Advantages of Establishing an LTU

In many developing and transition countries, establishing a specialized operation to control the large taxpayers has had positive results in terms of increased large taxpayer compliance and improved effectiveness of tax administration. In addition, it has helped tax administrations focus their efforts on relatively few taxpayers that account for a large percent of total tax collection. Many of the countries surveyed reported that establishment of an LTU helped them address major operational weaknesses in tax administration and visibly improve core tax administration functions, resulting in (1) improved identification and knowledge of the large taxpayers and their operations; (2) more timely and accurate return filing and payment by the large taxpayers;[48] (3) earlier detection of taxpayers' noncompliance with filing and payment obligations; (4) more effective audits targeted by economic sector and performed by better-trained auditors; (5) a reduced stock of arrears, and therefore more targeted efforts by collection enforcement officers; and (6) better-trained staff able to deal with more complex tax issues, provide higher quality services to taxpayers, and detect irregularities and corrupt practices.

In many of the developing and transition countries surveyed, the LTU has been a vehicle for the tax administration to begin introducing important reforms subsequently extended to the rest of the taxpayers, such as self-assessment of taxpayer liabilities, a single taxpayer masterfile, a unique taxpayer identification number, an organizational structure based on the main tax administration functions, electronic filing, and new or improved computerized information systems. In some countries (Benin, Burkina Faso, Togo) the establishment of an LTU has been the starting point for introducing a new tax, the VAT, or for integrating separate VAT and income tax administrations (Kenya, Uganda). In fact, in many countries where the LTU has been successfully established (e.g., Benin, Bolivia, Hungary, Peru), it has been part of an overall tax administration reform strategy to introduce long-term tax administration improvements.

The move to establish LTUs in developing and transition countries is similar to the trend in the tax administrations of several developed countries (e.g., Australia, France, the Netherlands, New Zealand, the United Kingdom, and the United States). Tax administrations in these countries have reorganized their operations around segments of the taxpayer population (especially according to taxpayer size) because they have observed that diverse segments present distinct revenue risks and require different compliance strategies.

Risks Associated with LTU Establishment

As experience in several of the developing and transition countries surveyed shows, however, establishing an LTU poses challenges that tax administrators and other public finance officials need to consider.

If the LTU is only partly established (i.e., the LTU does not administer all large taxpayers, does not perform all major tax administration functions, or lacks appropriate staffing or resources), it will not reach its potential for improving the operations of the tax administration and increasing large taxpayer compliance. Impediments to the effective establishment of an LTU take different forms, the primary one being weak government support for LTU

[48] This has been facilitated by better prefiling advice to taxpayers and by simplified filing and payment procedures such as electronic filing, automatic bank debiting, and in-house bank branches.

operations, in particular when it comes to enforcing large taxpayers' liabilities. Others include a lack of appropriate financial and staff resources assigned to the LTU's operations, failure to grant full responsibility to the LTU for the major tax administration functions vis-à-vis the large taxpayers, absence of staff training in specialized areas such as audit and collection enforcement, and resistance from local offices to the transfer of the large taxpayers under their control to the LTU. If the LTU is not well implemented, an important opportunity for reform is lost; moreover, the LTU loses credibility as an effective vehicle for modernizing tax administration. Unfortunately, several such examples exist among the transition countries.

Another major issue is the sustainability of the reforms introduced through the LTU. In several Latin American countries, for example, LTUs established in the 1980s and early 1990s were initially successful in introducing a new organizational structure, more effective procedures that led to improved tax administration performance (e.g., fewer late and nonfilers, quick follow-up of noncomplying taxpayers, reduction of tax arrears), new computerized information systems, and better-trained and higher-paid staff. However, without steady political and management support, as well as the needed financial and staff resources, the initially successful LTUs can quickly succumb to problems that existed before their implementation. They can also fall prey to problems that continue in the rest of the tax administration: incomplete identification of large taxpayers, poor compliance by the large taxpayers with basic filing and payment obligations, a growing stock of tax arrears, insufficient audit coverage and ineffective audits that prevent the tax administration from detecting taxpayer noncompliance, poor taxpayer services, and inadequate computerized systems.

Several factors may contribute to this lack of sustainability. A country's tax policy and tax administration may suffer general worsening (characterized, for example, by the introduction of multiple tax incentives, special tax treatments, and distortionary taxes, the politicization of the tax administration, and the proliferation of tax amnesties). The tax administration may lack an overall reform strategy that spells out clearly how the modernization effort introduced through the LTU will be extended to the rest of the tax administration (and the medium-size and small taxpayers). Furthermore, government commitment to achieving a permanent improvement in large taxpayers' compliance may be weak or lacking altogether.

There are also risks more specific to the operations of the LTU itself including, for example, overemphasizing the administration and control of the largest taxpayers and ignoring the medium-size and small taxpayers; failing to install specific controls (e.g., to ensure compliance with return filing and payment obligations) for the large taxpayers; assigning too many taxpayers to the LTU, rendering LTU operations less effective; and allowing irregular or corrupt practices by LTU officials who are not properly supervised. For an LTU to be effective and credible vis-à-vis the government and the taxpaying public, public finance officials need to be particularly sensitive to this last risk, and install strong safeguards against it (e.g., internal audit function, inspector general).

Related to this risk, for tax administrations interested in setting up an LTU, a major challenge is to attract and retain LTU staff of sufficiently high caliber, able to (1) administer complex operations such as sectoral tax audits and audits involving transfer pricing issues, as well as difficult enforcement and appeals cases, particularly as large taxpayers tend to have considerable resources to spend in these areas to reduce their tax liabilities; (2) provide large taxpayers with accurate and up-to-date information about all aspects of their tax liabilities; and (3) create a professional atmosphere that discourages tax officials from considering the possibility of accepting bribes from, or improperly negotiating with, the large taxpayers.

Finally, to gauge the effectiveness of the LTU's operations and changes in large taxpayer compliance, tax administrations need to focus on identifying and compiling performance indicators,[49] which are the basis for any effective management reporting system.

Lessons Learned

Against this background, what are the lessons to be learned, both for public finance officials in developing and transition countries and for IMF technical assistance policies in tax administration?

- For the LTU to be effective and for the large taxpayers' compliance to improve significantly, *the government must be fully committed to setting up the LTU, providing it with the necessary resources (staffing, physical infrastructure, computers, etc.), and supporting auditing and enforced collection efforts for the largest taxpayers.* This is likely to be a major challenge in many countries where the largest taxpayers wield significant political and economic power. Active support for the LTU is needed from the

[49]These include, for example, the rate of nonfilers and delinquent taxpayers, stock of tax arrears, audit coverage, audit productivity, timeliness of VAT refunds, and so forth.

tax administration's management and from the highest levels of government, including the minister of finance, prime minister, or president. An important manifestation of this support is the consistent application of the tax laws vis-à-vis the largest taxpayers. Barring this, the general compliance of the large taxpayers may suffer, and a clear signal that the tax laws are enforced only for certain taxpayers will be given to the taxpaying public.

- *The long-term effectiveness and credibility of the LTU depends on the government's ability to incorporate the LTU into a broader tax administration reform* also aimed at improving the administration of the medium-size and small taxpayers. Thus, while an LTU may be established as a pilot program to introduce fundamental tax administration reforms (recognizing that reforms cannot be implemented at once throughout the entire tax administration), the pilot program should not be an isolated administrative reform effort. This should prevent the LTU from being perceived as a "parallel" tax administration, a risk inherent in the establishment of a separate office focused only on the large taxpayers. Also, reform efforts targeting only the large taxpayers may lead to resentment by large taxpayers that they are bearing too much of the tax burden and to the general perception that only one group of taxpayers is being targeted to improve their compliance and collection performance.[50]

- Furthermore, *the IMF needs to ensure that the LTU is part of a broader tax administration reform aimed at improving the entire tax administration's effectiveness.* This is an area where the IMF could improve follow-up of the initial LTU reform effort. However, the fact must also be recognized that projects to establish an LTU have finite time frames and are often undertaken in the context of IMF programs, whereas building new organizational structures and implementing new procedures in the rest of the tax administration take much longer.

- To assist with broadening the reform efforts, *it is crucial for the tax administration to apply the lessons learned from the LTU to the rest of the tax administration.*

- *The LTU needs to continue being reformed and modernized, like the rest of the tax administration, to remain effective and to keep up with changes in the economy and the taxpaying population.* The LTU may be the first area to weaken, especially if the overall tax administration is suffering from lack of government support, poor management, and lack of resources. The LTU is not a one-time innovation, and tax officials should not become complacent. Establishment of an LTU can initially "limit the damage" to revenue performance and yield short-term improvements in tax collection and arrears performance. However, it will not succeed over the medium term without continuous modernization and improvements in the rest of the tax administration.

- For an LTU to be effective, there are *certain minimum requirements that it must meet* (many of which are also applicable to the overall tax administration), including
  - A *sound legal framework* that gives the tax administration, and also the LTU, the proper powers to enforce the tax laws effectively, but also specifies taxpayers' rights vis-à-vis the tax administration.
  - *Clear and simple criteria for selecting large taxpayers,* and guidelines for determining which taxpayers should remain classified as large taxpayers, to prevent the fragmentation of large taxpayer operations in order to reduce their tax liabilities.
  - *Standard and transparent procedures* for all large taxpayers.
  - *The administration of all the large taxpayers by the LTU* or network of LTUs. The differentiated treatment of large taxpayers by sector or region (e.g., some administered by LTU, others by local tax offices, etc.) should be avoided.
  - *The administration of all national-level domestic taxes by the LTU.* This eliminates the need for the large taxpayers to go to any tax office other than the LTU to deal with their tax affairs.
  - *LTU performance of all core tax administration functions* (e.g., returns and payment processing, audit, enforcement, taxpayer services, taxpayer appeals). Making the LTU a "full-service" unit is the only way to enable the LTU to have a more integrated compliance strategy vis-à-vis the large taxpayers. The fragmentation of responsibilities for large taxpayers across government agencies (which is the case in several transition countries where the LTU does not have full power to enforce tax arrears of the largest taxpayers) will undermine LTU effectiveness.

[50]Then again, in several countries large taxpayers have welcomed the establishment of an LTU as a way to increase the degree of transparency in tax administration, introduce greater standardization in the treatment of large taxpayers, and improve the quality of taxpayer services.

- *Clear reporting lines* between the LTU and the tax administration headquarters office (e.g., to a specialized headquarters unit in charge of managing LTU operations), and between the LTU and the field offices (e.g., regional and local tax offices).
- *Appropriate job grading and remuneration of LTU staff*, such that (1) the unit can attract and retain well-qualified and motivated staff who will be able to administer and provide services effectively to large taxpayers with complex operations, and (2) LTU staff will operate in a professional atmosphere that discourages corrupt practices.
- *LTU staff training* (e.g., in areas such as sectoral audits, transfer pricing issues), especially in the poorest countries.
- *Identification and regular compilation of key performance indicators*, which are the basis of a management reporting system and will assist tax administrators to gauge the effectiveness of the LTU, and of tax administration, in general.

- Even if these conditions are met, *the establishment of an LTU cannot by itself strengthen large taxpayer compliance and generate additional revenue when there is a prolonged downturn in the economy.*
- The experience of the transition countries with LTUs suggests that *a positive relationship exists between the successful implementation of an LTU and progress in macroeconomic stabilization and other structural reforms,* including tax policy reforms.
- *The most effective LTU operations are based on a high level of centralized supervision of operations and a limited number of units to be supervised.* By contrast, the least effective LTUs seem to be those that have a highly decentralized structure.

Appendix I Summary Tables of LTU Survey Responses

Table A1. Main Reason for Establishing a Large Taxpayer Unit

Country	To Secure Tax Revenue	To Improve Audit Effectiveness	To Provide Better Taxpayer Services	Other
Central and Eastern European Countries				
Bulgaria[1]				
Hungary			*	
Baltics and the Commonwealth of Independent States				
Azerbaijan	*			
Georgia	*			
Latvia	*			
Moldova	*			
Tajikistan	*			
Ukraine	*			
Africa				
Benin	*			
Burkina Faso	*			
Cameroon	*			
Côte d'Ivoire	*			
Kenya	*			
Togo	*			
Uganda	*			
Asia and Pacific				
Mongolia				*
Philippines	*			
Sri Lanka	*			
Latin America				
Argentina	*			
Bolivia	*			
Colombia			*	
Ecuador	*			
El Salvador	*			
Mexico			*	
Paraguay	*			
Peru	*			
Uruguay				*
Venezuela, República Bolivariana de	*			
Others				
Australia	*			
Japan		*		
Netherlands	*			
New Zealand[2]	*			
Spain				*
United Kingdom[3]	*			
United States			*	

[1]Main reasons listed, but no priority given: to secure revenue, to improve management of arrears, to provide better services to large taxpayers.
[2]Also, to improve audit effectiveness, to provide better taxpayer services.
[3]Both Inland Revenue and HMC&E reported "securing revenue" as the most important reason for setting up their large taxpayer operations.

Table A2. Legal Framework for LTU Operations

Country	Special Legal Provisions for Operations of LTU	No Separate Legal Provisions for LTU Operations
Central and Eastern European Countries		
Bulgaria		***
Hungary	***	
Baltics and the Commonwealth of Independent States		
Azerbaijan		***
Georgia		***
Latvia		***
Moldova	***	
Tajikistan	***1	
Ukraine	***	
Africa		
Benin		***
Burkina Faso		***
Cameroon		***
Kenya		***
Togo		***
Uganda		***
Asia and Pacific		
Mongolia		***
Philippines		***
Sri Lanka		***
Latin America		
Argentina		***
Bolivia		***
Colombia	***	
Ecuador		***
El Salvador		***
Mexico		***
Paraguay		***
Peru	***	
Uruguay		***
Venezuela, República Bolivariana de	***	
Others		
Australia	***	
Japan	***	
Netherlands		***
New Zealand		***
Spain	***2	
United Kingdom		***3
United States	***4	

[1]Administrative decree establishing LTU.

[2]There are specific ordinances regarding the structure and functions of the National Audit Office. There are also specific ordinances outlining the obligations of the large taxpayers (e.g., location and deadlines for filing tax returns).

[3]Relevant for both HMC&E and Inland Revenue.

[4]The IRS Restructuring & Reform Act of 1998 prescribed certain procedures and responsibilities for the Large and Mid-Size Business Division but also required that certain large taxpayer issues be handled by other parts of the IRS (i.e., appeals, criminal investigation, etc.).

Table A3. Taxes Administered by the LTU, 1999

Country	VAT or Sales Tax	Excises and Other Indirect Taxes	Personal and Corporate Income Taxes	Other Direct Taxes	Social Security Contributions	Customs Duties	Local Taxes
Central and Eastern European Countries							
Bulgaria	***	***	***				***
Hungary	***		***		***		
Baltics and the Commonwealth of Independent States							
Azerbaijan	***	***	***	***			
Georgia	***	***	***	***	***		***
Latvia	***	***	***	***	***		***
Moldova	***	***	***	***	***		***
Tajikistan	***	***	***				***
Ukraine	***	***		***			***
Africa							
Benin	***	***	***	***			
Burkina Faso	***	***	***	***			***
Cameroon	***	***	***	***			
Kenya	***	***	***	***			
Togo	***	***	***				***
Uganda	***	***	***	***			***[1]
Asia and Pacific							
Mongolia	***	***	***				
Philippines	***	***	***	***			
Sri Lanka	***[2]	***[3]	***	***			
Latin America							
Argentina	***	***	***	***	***		
Bolivia	***	***	***	***			
Colombia	***	***	***	***[4]			
Ecuador	***	***	***	***			
El Salvador	***	***	***				
Mexico	***	***	***	***		***	
Paraguay	***	***	***	***			
Peru	***	***	***	***	***		
Uruguay	***	***	***	***			
Venezuela, República Bolivariana de	***	***	***	***			
Others							
Australia			***				
Japan	***		***[5]				
Netherlands	***	***	***			***	
New Zealand	***	***	***	***	***		
Spain	***	***[6]	***				
United Kingdom[7]	***	***	***		***	***	
United States		***	***	***	***		

[1]Local excise taxes.
[2]The LTU does not administer the equivalent of the VAT, the goods and services tax. It only administers the turnover tax, which is limited to the financial sector.
[3]National Security Levy.
[4]Stamp tax.
[5]Corporate income tax only.
[6]LTU administers excise tax on insurance. All other excises are administered by customs.
[7]HMC&E administers the VAT and excises, and Inland Revenue administers personal and corporate income taxes and social security contributions.

Table A4. Criteria Used to Identify the Largest Taxpayers

Country	Amount of Tax Paid during Previous Year/ Filing Period	Annual Turnover	Number of Employees	Level of Imports/Exports	Type of Economic Activity (e.g., Public or Financial Sector, or Taxpayer Is a Foreign Firm)
Central and Eastern European Countries					
Bulgaria	***[1]	***			
Hungary	***	***[2]			
Baltics and the Commonwealth of Independent States					
Azerbaijan	***				
Georgia	***				
Latvia	***	***	***[3]		
Moldova	***	***		***	***
Tajikistan	***	***	***		***
Ukraine	***				
Africa					
Benin		***			
Burkina Faso		***[4]			
Cameroon		***			
Kenya	***	***[5]			***
Togo		***	***	***	***
Uganda	***	***	***		***
Asia and Pacific					
Mongolia	***	***		***	***
Philippines	***	***			
Sri Lanka	***				
Latin America					
Argentina	***	***			***
Bolivia	***	***[6]			
Ecuador	***	***	***	***	***
El Salvador		***			***
Mexico	***				***
Paraguay	***	***			
Peru	***	***	***	***[7]	
Uruguay	***	***	***	***	***[8]
Venezuela, República Bolivariana de	***	***			***[9]
Others					
Australia		***[10]			
Japan[11]					
Netherlands		***	***[12]		
New Zealand		***			***
Spain		***[13]			
United Kingdom[14]	***	***			***
United States[15]					

[1]Other criteria used: amount of tax refunded, value of fixed assets.

[2]Other criterion used: amount of VAT refund claim.

[3]Other criteria used: taxpayers with complicated structure and several subsidiaries, taxpayers with annual balances higher than a certain amount.

[4]Another criterion used: if taxpayer is a corporate taxpayer.

[5]For purposes of determining the corporate income tax.

[6]Other criteria used: amount of tax assessed, annual purchases.

[7]Other criteria used: whether or not the taxpayer belongs to a conglomerate or a corporate group, or has significant asset holdings.

[8]Another criterion used: whether or not the taxpayer is a withholding agent.

[9]Another criterion used: if taxpayer is in the mining and hydrocarbons sector.

[10]Other criterion used: taxpayer is "high wealth."

[11]Criterion used: corporations with capital of ¥100 million or more.

[12]Other criterion used: share capital.

[13]Other criteria used: importance of taxpayer within economic sector, whether taxpayer is member of a corporate group, complexity of operations, whether operations span a large geographic area.

[14]HMC&E uses the following criterion: amount of tax paid throughout the previous year. Inland Revenue use the following criteria: annual turnover, whether the taxpayer is a public enterprise or financial sector enterprise, and with respect to the corporate income tax, whether there are significant international tax aspects to the enterprise's operations.

[15]Criteria used: corporations and partnerships with assets of over $5 million. While corporations with assets in excess of $5 million are now considered customers of the Large and Mid-Size Business Division, a "pointing" system is used to identify the largest and most complex taxpayers within this population, which corresponds to the Large Case Program the IRS had in place prior to its reorganization.

Table A5. Number of Large Taxpayer Offices/Branches, 1999

Country	Single LTU	Single LTU with Branches (Number of Branches)	Multiple Autonomous LTUs (Number of Offices)
Central and Eastern European Countries			
Bulgaria			*** (5)
Hungary	***		
Baltics and the Commonwealth of Independent States			
Azerbaijan		*** (13)	
Georgia		*** (16)	
Latvia	***		
Moldova			*** (1)
Tajikistan		*** (3)	
Ukraine			*** (6)
Africa			
Benin	***		
Burkina Faso			*** (2)
Cameroon			*** (4)
Kenya	***		
Togo	***		
Uganda		*** (2)	
Asia and Pacific			
Mongolia	***		
Philippines		*** (1)	
Sri Lanka		*** (2)[1]	
Latin America			
Argentina	***		
Bolivia			*** (3)
Colombia	***		
Ecuador		*** (9)	
El Salvador	***		
Mexico		*** (11)	
Paraguay		*** (2)	
Peru			*** (17)
Uruguay			*** (9)
Venezuela, República Bolivariana de			*** (9)
Others			
Australia		*** (10)	
Japan			*** (12)[2]
Netherlands			*** (11)
New Zealand		*** (2)[3]	
Spain[4]			
United Kingdom[5]		*** (32)	*** (12)
United States		***[6]	

[1]There is not a single, unified LTU. Rather, the "LTU" in Colombo is separated into two offices, one for collection and enforcement, and one for audit, each reporting to different commissioners.

[2]Large taxpayer audit units are not autonomous, but rather are part of the regional tax office structure.

[3]In addition to the main corporates segment office in Wellington, there are two main offices that handle corporate operations: one in Auckland and one in Christchurch. There are also a few corporates segment staff in other locations around the country, but they handle relatively few corporate cases.

[4]There are for practical purposes two large taxpayer units: (1) the National Audit Office, which carries out audits of the large taxpayers; and (2) the Central Unit for Management of Large Enterprises, which is responsible for all collection and monitoring functions. A third unit, the National Collection Office, was established recently as a national unit responsible for enforced collection of large tax debts, which generally correspond to the large taxpayers. The National Audit Office has 17 branches at the regional office level that perform audits of the large taxpayers.

[5]Inland Revenue has a single LTU with 32 branch offices (an increase in relation to the 25 branches that existed in 1997, because of the expansion of the unit's work to include the administration of national insurance contributions). HMC&E reports having 12 autonomous LTUs.

[6]There are five industry groups that report to the Large and Mid-Size Business Division at headquarters: Retail, Food, and Pharmaceuticals; Natural Resources; Financial Services and Healthcare; Heavy Manufacturing, Construction, and Transportation; and Communications, Technology, and Media.

Table A6. Supervision/Reporting Lines for Large Taxpayer Office

Country	The Large Taxpayer Office Reports Directly to the Tax Department Director	The Large Taxpayer Office Reports to the Central Supervisory Office for Operations
Central and Eastern European Countries		
Bulgaria	***	
Hungary	***	
Baltics and the Commonwealth of Independent States		
Azerbaijan	***	
Georgia	***	
Latvia		***
Moldova	***	
Tajikistan	***	
Ukraine		***
Africa		
Benin	***	
Burkina Faso		***
Cameroon		***
Kenya	***	
Togo	***	
Uganda	***[1]	
Asia and Pacific		
Mongolia	***	
Philippines	***	***
Sri Lanka		***[2]
Latin America		
Argentina	***	
Bolivia	***	
Colombia	***	
Ecuador		***
El Salvador	***	
Mexico		***
Paraguay	***	
Peru		***[3]
Uruguay		***[4]
Venezuela, República Bolivariana de	***	
Others		
Australia		***[5]
Japan		***[6]
Netherlands		***[7]
New Zealand		***
Spain		***[8]
United Kingdom		***[9]
United States		***[10]

[1]Reporting line from the LTU to the commissioner is through the deputy commissioner for revenue.

[2]Large taxpayer collection and enforcement office reports to headquarters enforcement department, and large taxpayer audit office reports to headquarters corporate tax department.

[3]The large taxpayer offices are part of the regional tax office network. As such, they report to the national operations office at headquarters.

[4]The LTU in Montevideo reports to the collection department at headquarters, and the LTUs in the interior of the country report to the headquarters division in charge of supervising operations of tax offices in the interior.

[5]The LTUs report to a headquarters office responsible for supervising all large taxpayer operations.

[6]Large taxpayer units are primarily audit units and report to the headquarters audit department.

[7]The LTUs report to a headquarters office responsible for supervising all large taxpayer operations.

[8]There is a headquarters unit that supervises the operations of the Central Unit for Management of Large Enterprises. The National Audit Office, which carries out audits of the large taxpayers, reports to the headquarters audit department.

[9]In the case of both HMC&E and Inland Revenue, there is a special headquarters unit in charge of supervising the large taxpayer units' operations.

[10]The Large and Mid-Size Business Division at headquarters is responsible for supervising all large taxpayer operations.

Table A7. Organizational Structure of the Large Taxpayer Office/Operation

Country	Function-Based	Tax-Based	Combination Tax and Function-Based
Central and Eastern European Countries			
Bulgaria	***		
Hungary	***1		
Baltics and the Commonwealth of Independent States			
Azerbaijan	***		
Georgia	***		
Latvia			***
Moldova	***2		
Tajikistan	***		
Ukraine	***3		
Africa			
Benin	***		
Burkina Faso	***		
Cameroon	***		
Kenya	***		
Togo	***		
Uganda	***		
Asia and Pacific			
Mongolia	***		
Philippines	***		
Sri Lanka	***4		
Latin America			
Argentina	***		
Bolivia	***		
Colombia	***		
Ecuador	***		
El Salvador	***		
Mexico	***		
Paraguay	***		
Peru	***5		
Uruguay	***6		
Venezuela, República Bolivariana de	***		
Others			
Australia[7]			
Japan			***
Netherlands			***
New Zealand	***		
Spain	***8	***9	
United Kingdom			***10
United States[11]			

[1]The LTU does not carry out the enforcement function.
[2]Functions are limited to audit and enforcement.
[3]LTUs are in the process of being implemented, and the intention is to set up function-based structures.
[4]The LTU is separated into two offices performing different functions (i.e., one office carries out collection and enforcement activities; the other, audit activities).
[5]Initial functions were only collection and enforcement.
[6]LTUs carry out only collection functions.
[7]Neither function- nor tax-based. Large Business and International is a matrix of industry segments and "topic" segments (international, capital gains, privatization, etc.).
[8]The National Audit Office focuses on auditing large taxpayers; the Central Unit for Management of Large Enterprises carries out collection and monitoring functions.
[9]The Central Unit for Management of Large Enterprises is partially organized by tax. It has a separate VAT unit. The unit is responsible for administering all the major taxes as regards the large taxpayers, with the exception of customs duties and excises, which are administered by customs.
[10]The units in HMC&E focus on VAT and excises and perform the audit function. The units in Inland Revenue administer the direct taxes and national insurance contributions, and perform the following functions: with respect to the corporate income tax, the Large Business Offices perform all the main tax administration functions; with respect to the national insurance contributions, the Large Employer Compliance Offices conduct audit work.
[11]The IRS's Large and Mid-Size Business Division is organized by industry type. Other divisions in the IRS are organized around the following functions: prefiling, filing, and postfiling (compliance).

Table A8. Tax Collection and Payment Procedures Used by the LTU, 1999

Country	Electronic Filing through LTU and Payment through Banks	Joint Filing and Payment through Banks	Joint Filing and Payment through LTU	Separate Filing and Payment (LTU Office and Banks)	Payment through an "In-House" Bank Located in LTU
Central Eastern and European Countries					
Bulgaria				***	
Hungary	***[1]				
Baltics and the Commonwealth of Independent States					
Azerbaijan				***	
Georgia			***		
Latvia		***			
Moldova[2]					
Tajikistan				***	
Ukraine				***	
Africa					
Benin			***		
Burkina Faso			***		
Cameroon			***		
Kenya[3]					
Togo			***		
Uganda		***		***	
Asia and Pacific					
Mongolia				***	
Philippines				***	***[4]
Sri Lanka				***	
Latin America					
Argentina	***				***
Bolivia	***			***	***
Colombia	***	***			
Ecuador	***[5]				
El Salvador	***[6]	***		***	***[7]
Mexico				***[8]	
Paraguay			***		
Peru	***				***[9]
Uruguay			***[10]		
Venezuela, República Bolivariana de					***
Others					
Australia	***[11]				
Japan[12]					
Netherlands				***[13]	
New Zealand	***	***	***		
Spain	***	***			
United Kingdom[14]		***			
United States[15]	***		***	***	

[1]The large taxpayers pay their taxes through the banking system. Payment information is sent to the LTU electronically directly through the clearinghouse system of the banks (also referred to as the GIRO system). The large taxpayers can also pay their taxes electronically.

[2]LTU performs only audit and enforcement functions. Large taxpayers file their returns at the local offices, and pay taxes through the banks.

[3]Large taxpayers file their returns and make their payments centrally at the offices of the respective revenue departments (e.g., income tax department, value-added tax department, and customs and excise department).

[4]Electronic filing and payment envisaged for 2001.

[5]Payment is electronic (e.g., electronic bank debit).

[6]No electronic filing yet.

[7]No electronic filing yet.

[8]Large taxpayers file their returns at the tax collection department of the Tax Administration Service (SAT), where returns are processed. Large taxpayers make payments through the banking system.

[9]The large taxpayers have always paid in bank branches located on the premises of the large taxpayer offices of the SUNAT.

[10]Filing is done electronically.

[11]Tax collections are managed through the ATO Small Business client segment to avoid unnecessary duplication and reviewed by the Large Business and International client segment, or LB&I. For example, the banking and finance segment within LB&I closely monitors its clients' payments and debts. However, the taxes are paid through a common system administered by the Small Business segment. The ATO has electronic refund transfer arrangements with many large corporations, particularly the "pay-as-you-go" employee deductions remitted on a bi-weekly/monthly basis.

[12]Not applicable, as the large taxpayer units in Japan only perform audit functions.

[13]Large taxpayers submit their returns to the LTUs, but the final processing is carried out by a central processing unit.

[14]Applies to both HMC&E and Inland Revenue.

[15]Large corporations must file with the IRS. Payments can be made through banks or to the IRS directly. Electronic filing is available for some but not all returns. Electronic payment to banks and the IRS is available.

Table A9. Types of Audits Undertaken by the LTU, 1999

Country	Comprehensive Audits	Single-Issue Audits	Desk Audits	Audit Operations Are Structured Around Major Industry Segments
Central and Eastern European Countries				
Bulgaria	***	***		
Hungary	***	***		
Baltics and the Commonwealth of Independent States				
Azerbaijan	***	***	***	
Georgia		***		
Latvia	***	***	***	***
Moldova	***	***	***	
Tajikistan	***			
Ukraine	***	***		
Africa				
Benin		***	***	
Burkina Faso			***	
Cameroon		***	***	
Kenya	***	***	***	***
Togo		***	***	
Uganda	***	***	***	***
Asia and Pacific				
Mongolia	***	***		
Philippines	***	***		***
Sri Lanka	***	***	***	
Latin America				
Argentina		***	***	***
Bolivia	***	***	***	
Colombia	***	***		***
Ecuador[1]				
El Salvador	***	***		***
Mexico	***	***	***	***[2]
Paraguay	***	***		
Peru	***	***	***	***[3]
Uruguay[4]	n.a.	n.a.	n.a.	n.a.
Venezuela, República Bolivariana de		***		***
Others				
Australia		***		***
Japan	***	***	***	***
Netherlands	***	***	***	***
New Zealand	***	***	***	***
Spain[5]	***	***	***	
United Kingdom[6]	***	***	***	***
United States	***	***	n.a.[7]	***

[1]No significant audit activity is currently undertaken by the LTU. Because of limited resources, the decision was made to concentrate on monitoring large taxpayers' compliance with filing and payment obligations, as well as enforcing the collection of arrears. The tax administration authorities intend to develop the LTU's audit capacity in the future.

[2]Audits are organized according to different sectors of economic activity (financial, government, others) as well as by type of issue (fiscal consolidation, related parties, transfer pricing, etc.).

[3]In addition, other criteria are used to classify taxpayers with a view to minimizing their noncompliance.

[4]Large taxpayer unit only performs tax collection function.

[5]Comprehensive audits are carried out by the national audit office; single-issue audits are carried out both by the national audit office and by the large taxpayer office, and desk audits are carried out by the LTO.

[6]Applies to both HMC&E and Inland Revenue.

[7]Desk audits are generally not conducted in the LMSB Division, except for a limited number completed in the international examination program.

Table A10. Collection Enforcement Functions of the LTU

Country	Is the LTU Responsible for Enforcing Payment of Tax Arrears of the Largest Taxpayers? Yes	No
Central and Eastern European Countries		
Bulgaria	*	
Hungary	*	
Baltics and the Commonwealth of Independent States		
Azerbaijan		*[1]
Georgia	*	
Latvia	*	
Moldova	*[2]	
Tajikistan	*[3]	
Ukraine	*[4]	
Africa		
Benin	*	
Burkina Faso	*	
Cameroon	*[5]	
Kenya	*	
Togo	*	
Uganda	*	
Asia and Pacific		
Mongolia	*	
Philippines	*	
Sri Lanka	*	
Latin America		
Argentina	*	
Bolivia	*	
Colombia	*	
Ecuador	*	
El Salvador		*[6]
Mexico		*[7]
Paraguay	*	
Peru	*	
Uruguay		*[8]
Venezuela, República Bolivariana de	*	
Others		
Australia	*[9]	
Japan	n.a.[10]	n.a.
Netherlands	*	
New Zealand	*	
Spain	*	
United Kingdom	*[11]	*[12]
United States		*[13]

[1]Another department in the state tax ministry is responsible for this function. The ministry of the interior also carries out some enforcement functions.
[2]The financial police also carry out some collection enforcement work, which leads to duplication of activities and complicates the recovery of overdue tax.
[3]The LTU tax police unit carries out enforcement work.
[4]The tax police perform some enforcement activities.
[5]Initially, the treasury was responsible for enforcing payment of tax arrears. This function was subsequently transferred to the LTU.
[6]The LTU refers cases of enforced collection to the treasury, which is legally responsible for enforcing payment of tax arrears. In case the treasury is unable to recover the refunds, the case is transferred to the public prosecutor's office for further action.
[7]The local tax offices have the authority to initiate collection enforcement action until such time as an Agreement of Initiation of Activities by the large taxpayer offices is published in the *Official Diary of the Federation*.
[8]The tax revenue unit, and not the LTU, enforces collections.
[9]Industry segments monitor and assist with debt collection.
[10]Audit work only.
[11]In the case of Inland Revenue, the Large Business Offices enforce collections with respect to the corporate income tax only. The Large Employer Compliance Offices perform audit work only.
[12]The large taxpayer units in HMC&E are not responsible for enforcing collections.
[13]The collection enforcement function is "contracted out" to the IRS's Small Business/Self-Employed Division.

Table A11. Number of Staff in LTU/Large Taxpayer Audit Unit, 1999

Country	Total Number of Staff	As a Percent of Total Tax Administration Staff
Central and Eastern European Countries		
Bulgaria	367	3.9
Hungary	197	1.5
Baltics and the Commonwealth of Independent States		
Azerbaijan	82	2.6
Georgia	150	...
Latvia	64	3.5
Moldova	79	2.9
Tajikistan	78	3.0
Ukraine	1,057	1.7
Africa		
Benin	68	8.5
Burkina Faso	103	10.0
Cameroon	120	10.0
Kenya	56	1.4
Togo	24	8.0
Uganda	110	...
Asia and Pacific		
Mongolia	17	...
Philippines	249	1.9
Sri Lanka	54	7.0
Latin America		
Argentina	655	3.7
Bolivia	180	16.0
Colombia	239	3.4
Ecuador	22	10.0
El Salvador	131	12.3
Mexico	1,491	3.8
Paraguay	230	9.0
Peru	...	...
Uruguay	44	3.3
Venezuela, República Bolivariana de	295	4.3
Others		
Australia	1,250	8.6
Japan[1]	2,115	3.7
Netherlands	2,150	7.0
New Zealand	240	5.5
Spain	654	2.4
United Kingdom[2]	750	12.0
United Kingdom[3]	670	1.0
United States	7,035[4]	7.0

[1]Audit function only.
[2]HMC&E (indirect taxes).
[3]Inland Revenue (direct taxes and national insurance contributions).
[4]Figures are based on an initial plan for staffing of Large and Mid-Size Business. Actual staffing at the time of the survey was around 500 fewer staff members, who are largely planned headquarters staff.

Table A12. Salaries and Benefits of LTU/Large Taxpayer Audit Unit Staff, 1999

Country	Salaries/Benefits Same as Rest of Tax Administration Staff	Higher Salaries/Benefits Compared to Rest of Tax Administration Staff
Central and Eastern European Countries		
Bulgaria		***1
Hungary	***	
Baltics and the Commonwealth of Independent States		
Azerbaijan	***	
Georgia		***
Latvia		***2
Moldova		***3
Tajikistan	***	
Ukraine	***	
Africa		
Benin	***	
Burkina Faso	***	
Cameroon	***	
Kenya	***	
Togo	***	
Uganda	***	
Asia and Pacific		
Mongolia	***	
Philippines	***4	
Sri Lanka	***	
Latin America		
Argentina	***	
Bolivia	***5	
Colombia	***	
Ecuador	***	
El Salvador	***	
Mexico	***	
Paraguay	***	
Peru	***	
Uruguay	***	
Venezuela, República Bolivariana de	***	
Others		
Australia		***6
Japan[7]	***	
Netherlands		***8
New Zealand		***9
Spain	***	
United Kingdom	***10	
United States	***	

[1]Salaries are same as in other tax offices but individual bonuses are higher.
[2]Salaries are 26 percent higher than rest of tax administration staff.
[3]Bonuses are higher starting end of 1999. Amount of bonus is determined on the basis of performance indicators for the LTU.
[4]The tax administration authorities noted that in their view, "higher salaries and/or benefits would be a very good incentive for LTU personnel who were selected under higher qualification standards."
[5]At the time of LTU establishment in 1988, LTU staff salaries were 100 percent higher than average salary in rest of tax administration.
[6]By virtue of higher qualifications required to deal with the level of complexity of the large taxpayers.
[7]Performs audit functions only.
[8]Salaries are 20 percent higher.
[9]Salaries are around 5 percent higher.
[10]For both HMC&E and Inland Revenue, there is a slightly higher overall job grading, and there is a move to establish greater salary differentiation.

Appendix II Country Responses to LTU Survey and LTU Survey Form

Table A13. Country Responses to LTU Survey

	No Response	Complete Response	Partial Response
Central and Eastern European Countries			
Albania	*		
Bulgaria		*	
Hungary		*	
Baltics and the Commonwealth of Independent States			
Azerbaijan			*
Georgia			*
Latvia		*	
Moldova		*	
Russia	*		
Tajikistan		*	
Ukraine			*
Africa			
Benin		*	
Burkina Faso		*	
Cameroon			*
Côte d'Ivoire	*		
Kenya		*	
Togo		*	
Uganda		*	
Asia and Pacific			
Cambodia	*		
Philippines		*	
Sri Lanka		*	
Latin America			
Argentina		*	
Bolivia		*	
Colombia			*
Ecuador			*
El Salvador			*
Mexico			*
Paraguay			*
Peru			*
Uruguay		*	
Venezuela, República Bolivariana de			*
Others			
Australia			*
Austria	*		
Japan		*	
New Zealand		*	
Netherlands		*	
Spain		*	
United Kingdom		*	
United States		*	

LTU Survey Form

A. General Information[1]

Country:

1. Date of establishment of the LTU: __________

2. Role of the IMF:

a. Did the IMF recommend implementation of an LTU?	Yes __________	No __________
b. Did the IMF assist with LTU implementation?	Yes __________	No __________
c. If you answered "yes" to 2b. please specify what type of IMF assistance was provided (e.g., technical assistance missions, long-term experts, short-term experts):		
d. Other technical assistance providers were involved with LTU establishment: (e.g., they provided technical advice, financing, etc.)	Yes __________	No __________
e. Prior to the establishment of the LTU, was there any focus on monitoring/controlling the large taxpayers?	Yes __________	No __________

3. Context of LTU establishment

a. Was the LTU established as part of an overall reform of the tax administration?	Yes __________	No __________
b. If your answer to question 3a. was yes, please indicate the other areas of tax administration that were included in the reform program:		

4. Main reasons for implementing LTU: (please list the three main reasons in order of priority: 1, 2, and 3)

a. Secure revenue	__________
b. Improve management of arrears	__________
c. Improve audit program	__________
d. Provide better services to large taxpayers	__________
e. Develop new organization, procedures, systems	__________
f. Other reason (please specify)	__________

5. LTU staffing: (please indicate the actual number and distribution of staff)	At introduction	Currently
a. Total number of LTU staff (if applicable, including staff at headquarters and field offices):	__________	__________
b. Distribution of LTU staff by level:		
1. Managerial staff	__________	__________
2. Professional staff	__________	__________
3. Support staff	__________	__________
c. Distribution of LTU professional staff by function:		
1. Processing and accounting for tax returns and payments	__________	__________
2. Audit	__________	__________
3. Collection enforcement	__________	__________
4. Taxpayer services	__________	__________
5. Information systems	__________	__________
6. Other (please specify)	__________	__________
d. Number of staff as a percent of total tax administration staff:	__________	__________

6. Please indicate which taxes are administered by the LTU:	At introduction	Currently
a. VAT or sales tax:	__________	__________
b. Excises and other indirect taxes:	__________	__________
c. Personal and corporate income taxes:	__________	__________
d. Other direct taxes:	__________	__________
e. Social security contributions:	__________	__________
f. Customs duties:	__________	__________
g. Local taxes:	__________	__________

LTU Survey Form *(continued)*

7. Please indicate the number of taxpayers controlled by the LTU and the total taxpayer population by tax type:	At introduction	Currently
a. Number of large taxpayers in the LTU:[2]		
b. Total number of taxpayers in the general masterfile:[3]		
1. Total number of taxpayers in the VAT or sales tax masterfile:		
2. Total number of taxpayers in the Income Tax masterfile:		

8. Please place a check next to the criteria used to identify the large taxpayers:	At introduction	Currently
a. Amount of taxes paid during previous year/filing period(s):		
b. Annual turnover:		
c. Number of employees:		
d. Level of imports/exports:		
e. The taxpayer is a public enterprise/financial sector enterprise		
f. Other (please describe):		

9. Please indicate the LTU's main functions:	At introduction	Currently
a. Full-fledged LTU (e.g., filing and payment, audit, collection enforcement, taxpayer services, updating register):		
b. Only accounting and collection functions:		
c. Only audit of large taxpayers:		
d. Only enforced collection:		
e. Other:		

10. Structure of LTU offices/branches	At introduction	Currently
a. There is a single LTU:		
b. There is a single LTU with branch offices (please specify the number of branch offices):		
c. There are multiple autonomous LTUs (please specify the number of autonomous LTUs):		

11. Please indicate the organizational structure of the LTU:	At introduction	Currently
a. Function-based (e.g., filing and payment, audit, enforcement):		
b. Tax-based (e.g., VAT, Income Tax, Excise Taxes, etc.):		
c. Combination function-based and tax-based:		
d. Is the organization different from that of other tax offices? (If yes, describe):		

e. Please provide organizational diagrams of the LTU and the tax administration.

12. Supervision/reporting lines: (please place a check mark next to the item which best describes the situation in your country)	At introduction	Currently
a. There is a special headquarters unit in charge of supervising LTU operations:		
b. The LTU reports to the head of the tax administration:		
c. The LTU reports to both headquarters and to the local government:		
d. LTU branches report to the head of the central LTU:		
e. LTU branches report to their respective regional offices:		
f. Other (please specify):		

13. LTU staff salaries and benefits:	At introduction	Currently
a. Same as in other tax offices:		
b. Higher salaries/benefits (e.g., bonuses, etc.) compared to other tax offices (please indicate the difference in percent):		

LTU Survey Form *(continued)*

	At introduction	Currently
14. Legal background:		
a. There are special provisions (laws, regulations, decrees) regarding LTU operations in the tax legislation:	______	______
b. If answer to point a. above was yes, please describe:		
15. LTU Procedures: (please place a check mark next to the relevant procedures carried out by the LTU in your country)	At introduction	Currently
Collection procedures:		
a. Electronic filing through LTU and payment through banks	______	______
b. Joint filing and payment through banks:	______	______
c. Joint filing and payment through the LTU:	______	______
d. Separate filing and payment (LTU office and banks):	______	______
e. Payment is through an "in-house" bank located in LTU:	______	______
Audit procedures:	At introduction	Currently
f. Comprehensive audits:	______	______
g. Single-issue audits:	______	______
h. Desk audits:	______	______
i. Audit operations are structured around major industry segments:	______	______
Collection enforcement procedures:		
j. Collection enforcement work is an integral part of the LTU's operations:	______	______
k. If the answer to question j. is no, please specify: (e.g., another part of the tax administration or another government agency carries out this function)		
Taxpayer services:		
l. There are specialized taxpayer services for large taxpayers:	______	______
m. Are any tax administration procedures different from those of other tax offices? If yes, please describe.		
16. Computer systems: (place a check mark next to the items that best describe the computer support systems in your LTU)	At introduction	Currently
a. There is an integrated computer system used to supervise large taxpayers' liabilities: [4]	______	______
b. There are separate computer modules (e.g., by tax and by function) used to supervise large taxpayers' liabilities (please describe):	______	______
c. The computer support system is identical to one used for other tax offices:	______	______
d. Number of personal computers:	______	______
e. There is no computer support of LTU operations (e.g., LTU procedures are manual):	______	______

B. LTU Performance, 1995–99

(Please provide statistics that are available for this period)

Performance Indicator	1995	1996	1997	1998	1999
1. *Number of large taxpayers*					
2. *Tax collection performance* (in nominal terms)					
2.1. Total LTU collections (net of tax refund):					
2.2. Total domestic tax revenue collections (net of tax refunds), for all taxpayers:					
2.3. Amount of LTU arrears (at December 31 of each year):					
2.4. Amount of total domestic tax revenue arrears (at December 31 of each year), for all taxpayers:					

LTU Survey Form *(concluded)*

Performance Indicator	1995	1996	1997	1998	1999
3. *Compliance performance*					
3.1. Number of stop-filers with respect to the major taxes (VAT and Income Tax):[5]					
a. Number of large taxpayers who are stop-filers:					
b. Total number of stop-filers (refers to all registered taxpayers):					
3.2. Number of taxpayers in arrears:					
a. Number of large taxpayers in arrears:					
b. Total number of taxpayers in arrears (refers to all registered taxpayers):					
4. *Audit performance*					
LTU audit results (in nominal terms)					
4.1. Total amount of additional assessments resulting from audits					
4.2. Total amount of additional assessments which were actually collected					
4.3. Number of VAT audits carried out by the LTU (if possible, please indicate number of field audits, and number of desk audits)					
4.4. Number of other issue-oriented audits (e.g., wage withholding) carried out by the LTU					
4.5. Number of comprehensive audits carried out by the LTU					
5. *VAT refund performance*					
5.1. Amount of VAT refunds processed by the LTU (at December 31 of each year)					
5.2. Amount of VAT refunds processed by the tax administration (at December 31 of each year)					
5.3. Amount of ***pending*** VAT refunds in LTU (at December 31 of each year)					
5.4. Amount of ***pending*** VAT refunds for all taxpayers (at December 31 of each year)					
5.5. Number of VAT refunds processed by the LTU (at December 31 of each year)					
5.6. Number of VAT refunds processed by the tax administration (at December 31 of each year)					
6. *LTU resources*					
6.1. LTU budget as a percent of total tax administration budget					

C. General Assessment of the LTU

1. In your view, has the establishment of the LTU been successful in terms of improving the effectiveness of tax administration, revenue collection, and large taxpayers' compliance (e.g., have procedures such as filing and payment, audit, collection enforcement, and taxpayer services improved)? Please provide concrete examples.
2. If the answer to 1. is yes, how have these improvements been reflected in terms of improved compliance of the large taxpayers? How would you evaluate the compliance of the large taxpayers compared with the compliance of the rest of the taxpaying population? Please provide concrete examples.
3. Please describe the main difficulties encountered in implementing the LTU (e.g., resource constraints, lack of legal authority, staffing problems, lack of high-level support, lack of sustainability of LTU, etc.)
4. Please describe the main challenges ahead in ensuring the LTU operates as an effective and efficient part of the tax administration. What changes would you recommend in terms of the LTU's (a) structure; (b) operational procedures?

[1]Please place a check mark in the appropriate space, except where otherwise indicated.
[2]If there is more than one LTU, specify the number of large taxpayers monitored by all the LTU offices/branches.
[3]Refers to the total number of registered taxpayers, and not exclusively to the large taxpayers.
[4]E.g., the systems are integrated across taxes and across functions (taxpayer register, taxpayer masterfile, collection enforcement, audit).
[5]VAT stop-filers would be defined as those who did not submit VAT returns during two or more filing periods during one year.

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