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.