

### 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.<sup>30</sup> 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 exam-

ple, 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.<sup>31</sup>

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

<sup>30</sup>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.

<sup>31</sup>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.<sup>32</sup>

<sup>32</sup>In some countries, under exceptional circumstances, another risk may be the personal security of LTU staff.

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.<sup>33</sup>

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

<sup>33</sup>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)<sup>1</sup>**

Country	Improved Effectiveness of Tax Administration		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
	Improved collection performance	Reduced stock of arrears			
<b>Central and Eastern European Countries</b>					
Bulgaria	1	1	2	2	2
Hungary	1	1	1	1	1
<b>Baltics and the Commonwealth of Independent States</b>					
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
<b>Africa</b>					
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
<b>Asia and Pacific</b>					
Philippines	2	2	4	2	2
Sri Lanka	2	3	2	3	3
<b>Latin America</b>					
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

<sup>1</sup> 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)<sup>1</sup>

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
<b>Central and Eastern European Countries</b>						
Bulgaria	1	2	2	1	1	1
Hungary	1	1	1	1	1	1
<b>Baltics and the Commonwealth of Independent States</b>						
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
<b>Africa</b>						
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
<b>Asia and Pacific</b>						
Philippines	2	3	2	1	2	2
Sri Lanka	1	3	3	3	1	3
<b>Latin America</b>						
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

<sup>1</sup> 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 lei 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 re-

gion (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.<sup>34</sup> 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.<sup>35</sup>

### 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

<sup>34</sup>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.

<sup>35</sup>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 as-

essed; 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.<sup>36</sup> 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-

<sup>36</sup>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.<sup>37</sup> 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 of-

fices 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.<sup>38</sup>

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.<sup>39</sup> Establishment of an LTU was also used as a vehicle to modernize obsolete collection procedures, which helped improve collection enforcement performance.<sup>40</sup>

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.

<sup>37</sup>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.

<sup>38</sup>The IMF has recently recommended establishment of an LTU in the Democratic Republic of Congo, Eritrea, and Ethiopia.

<sup>39</sup>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.

<sup>40</sup>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.<sup>41</sup> 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.

<sup>41</sup>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.<sup>42</sup> 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.

<sup>42</sup>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.<sup>43</sup>

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,<sup>44</sup> 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.

<sup>43</sup>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).

<sup>44</sup>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 spe-

cialized 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.<sup>45</sup> 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

<sup>45</sup>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.

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



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 non-filing, 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 re-

form 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.<sup>46</sup> 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.<sup>47</sup> 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.

<sup>46</sup>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.

<sup>47</sup>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.