



USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

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

Chapter 5. Registration

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

Chapter 5. Registration

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List of Acronyms and Abbreviations

Acronym	Definition
LAC	Latin America and the Caribbean
OECD	Organisation for Economic Co-operation and Development
TIN	Taxpayer identification number
VAT	Value added tax

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Chapter 5. Registration

This chapter defines and discusses the process of registering taxpayers and how this key activity can significantly impact on other key tax administration functions. The registration and recording of taxpayer information is one of the fundamental functions of the tax administration and, to a great extent, drives how other core administrative functions operate.

An inaccurate taxpayer database will inevitably lead to ineffective compliance programs. The timely and accurate collection and recording of basic identifying information of the taxpayer will permit the tax administration to understand its taxpayer base, staff itself accordingly, and to effectively plan other core tax administration functions. In short, the administration cannot manage its taxpayers if it does not know who they are, where they are located, and whether they are active or inactive.

5.1. Leading Practice

Of course, there is no single 'tax registration model' and much is dictated by the content of the tax law and/or regulations of the country. Whatever the size and the content of the register, there are leading practices that should be adopted by the administration and that will go a long way to ensure the integrity of the taxpayer database.

5.1.1. Definition of Registrant

The definition of 'registrant' is likely set out in the law and/or regulations, but invariably falls somewhere in the spectrum between a regime where every individual or entity who is obliged to pay tax and file a return (universal self-assessment) must register, to a more restricted regime where only businesses or individuals with complex tax affairs must register. The latter scenario is common in a tax system in which the overwhelming majority of salaried individuals pays tax at the source (i.e., through their employers) and, therefore, is not obliged to file a tax return. Understandably, these different definitions result in substantially differing sizes of taxpayer registration databases.

Registrants should be restricted to those who are obligated under the tax laws to file a return or pay tax directly to the administration. The overall tax regime and breadth of taxes will affect the size of the taxpayer register. Leading practice dictates a simplified tax system, such as the establishment of a reasonably high income tax filing threshold, and the introduction of final tax withholding on salaries, interest, and dividends. These and similar measures can significantly reduce the number of taxpayers obliged to file returns.

5.1.2. Information Requirements

In keeping with the leading practice of reducing taxpayers' cost of complying with their tax obligations, the tax administration should be mindful of its own information needs. In general, the administration must oblige the taxpayer to provide any data required under the law and any additional data that it deems necessary to allow it to provide some assurance of taxpayer compliance. Taxpayers should not

be instructed to provide superfluous data that is ‘nice to have,’ but is never actually used. The following checklist provides an indication of the minimum key data required of the taxpayer at the time of registration:

- Name (plus trading name), address, and contact details;
- Type of legal entity (individual, partnership, corporation);
- Business registration details (for those entities required to notify the government's business registry of a new business);
- Partner details (for partnerships only);
- Type of business activity;
- Financial year end;
- Actual (or estimated) annual turnover; and
- Type of tax(es), for which the taxpayer is liable.

The initial four bullets are base data that provide the tax administration with the ‘who’ and ‘where.’ The latter four bullets provide ample information for the administration to better inform its future planning and the allocation of an initial compliance rating.¹

Registration data should be captured on a simple form, with the taxpayer obliged to provide the minimum amount of verification data needed. After processing the registration application, the tax administration should provide the taxpayer with a unique taxpayer identification number (TIN) and a registration certificate.

Notwithstanding the above, some taxes, in particular property taxes, require ‘discovery’ and not just a simple act of registration. That is, the tax administration not only needs to know who and what to tax, but it also needs to know the value of the taxable base, including the name, address, and value of the property. As such, a separate property valuation system will be necessary and must interact with the taxpayer registration database.

5.1.3. Single Registration Process

Clearly, it is preferred that the tax administration have a single, integrated registration process for all taxes. This reduces costs for both the administration and the taxpayer. It will also immediately give the administration a complete picture of the taxpayer and permit it an integrated and comparable view across taxes. There are occasions, however, when a single registration process is not possible, such as when separate administrations administer different tax types (e.g., property taxes are often administered locally rather than nationally).

Registration for all taxes may not be possible at business start-up. This is particularly relevant for the value added tax (VAT), which normally has a compulsory registration threshold, i.e., the taxpayer is only

¹ Tax administrations generally use information from tax returns as a major input to their risk-based compliance systems. Given that there is no such data at the time of registration, the administration must make use of what limited data is available to make preliminary allocations according to perceived risk.

obligated to register for VAT when their taxable turnover exceeds the legal threshold (unless the taxpayer wants to voluntarily register). As such, a taxpayer that has just started or is about to commence activity will not necessarily be registrable for VAT at that time. Given the potential risks with VAT registration, a more robust process is often put in place by the administration, as discussed below.

5.1.4. VAT Registration

The threshold level at which registration for the VAT becomes compulsory is critical for its successful implementation. This is especially the case in countries with weak administrative capacity, where it is obvious that the capacity of small businesses to issue invoices and maintain proper books and records is problematic. In these countries, absent a sufficiently high (turnover) registration threshold, implementation of an account-based, self-assessed VAT is unrealistic.

However, "a sufficiently high registration threshold" is difficult to determine and establish. Globally, in 2010², the average VAT threshold was US\$60,000, but thresholds varied widely, from \$0 to over \$700,000. Among LAC countries, the average threshold was \$37,000, but similarly varied. Average thresholds are not very meaningful or useful. In short, VAT thresholds need to be determined for and by each country based on its tax policies, its unique taxpayer population, and on the resources and capabilities of its tax administration.

On a related issue, VAT registration can be the entry point to serious fraud, and it is important that the administration take steps to detect and prevent abuse of the VAT system. This includes rigorous pre-registration checks of businesses suspected of missing trader fraud³, which involves the sale of goods/services at a VAT inclusive price, after which the trader disappears without paying the VAT to the tax administration. A key part of deterring this fraud is to deny the fraudsters the VAT registration, without which the fraud cannot be perpetuated.

5.1.5. Taxpayer Identification Numbers

Problems in the registration database can often be traced back to poor control of the issuance and allocation of TINs. A unique TIN controlled by the tax administration and used for all taxes, including those collected at importation, is essential for effective tax administration. It is important that responsibility for the issuance of TINs is restricted to the tax administration. Equally important is that the administration identify and put in place controls to check that no TIN is assigned to more than one taxpayer and that no taxpayer is assigned more than one TIN. This single and unique identifier for all tax administration purposes simplifies taxpayer compliance and eases compliance monitoring. A unique TIN also facilitates the exchange of information between government agencies and the matching of information reports with tax records to detect non-compliance.

While some differences of opinion remain on the allocation of identification numbers, there is a growing consensus that a unique, single TIN for all taxes is essential for effective tax administration. Some

² USAID's Collecting Taxes database. <http://egateg.usaid.gov/collecting-taxes>.

³ Missing trader fraud and VAT fraud in general are discussed in Chapter 7.

countries have opted for issuing separate TINs for different types of taxes, arguing that this protects taxpayer information (e.g., having a VAT number that can be printed on invoices to customers but an income tax number that will remain confidential). In general, those countries issuing multiple TINs are a smaller group that have, or used to have, different administrations for the main direct and indirect taxes. Clearly, having many identification numbers in use increases the likelihood of error and/or fraud. In practical terms, however, having different identifiers for different taxes does not have to be a major problem, provided they all map back to a single, unique TIN in the administration's database.

5.1.6. Intra-Governmental Coordination

Effective compliance monitoring requires third-party data for comparison purposes. Specific to the registration arena, there are two key government entities which gather and maintain data likely to assist in the determination on whether an individual or legal entity is registrable for tax.

Invariably, countries require new businesses to register with the Ministry of Business/Trade, Companies House, or other relevant entity before undertaking any activity. Although some of these businesses may never trade, the vast majority will assume some level of taxable activity and, accordingly, must be registered with the tax administration. It is, therefore, incumbent on the tax administration to obtain (preferably in electronic format), a regular extract of new and/or amended business registrations, which can be compared against the administration's registry. Formal legislation should not be required for such an exchange, but a bilateral memorandum of understanding between the agencies may prove useful.⁴

The second key government entity is Customs. Customs may be within the same entity as the tax administration, under the umbrella of the Ministry of Finance, or may be a separate agency reporting to the Ministry of Finance. Given that Customs often collects a higher percentage of government tax revenue than the tax administration, it is essential that the two liaise closely and share information regularly. In general, Customs will be dealing with a sub-set of the tax administration's registry. All entities importing or exporting goods in commercial quantities are in business and must be registered with the tax administration. To simplify the flow of information, it is preferable that both entities adopt the same single TIN.

5.1.7. Registration and the Use of Automation

The use of automation is essential in order to create and maintain an effective registration database. Automation also reduces the compliance cost for both the tax administration and taxpayers through a significantly reduced and more efficient processing time and procedure. Indeed, tax administrations using automation to best effect will provide taxpayers the opportunity to complete and file an application for registration online. This eradicates the need for the taxpayer to appear at the tax office

⁴ Other forms of cooperation are possible and needed. For example, the government agency responsible for business registration could make tax registration forms available to taxpayers. In all cases, however, the tax administration should not be in a position to depend on other government agencies and should be able to register a taxpayer whether or not that same taxpayer registered with the business registry.

and interact in person. Automation refers not only to an automated tax administration system, but also to the increasing use of email and mobile phones as communication channels.

Many tax administrations have emphasized the importance of reducing the burden of taxpayer compliance, with improved operational efficiency as a clear secondary goal. A clear majority of OECD tax bodies signaled increasing the range, quality, and take-up of their Internet-based services as their number one priority.⁵ Indeed, there has been not only a massive expansion of e-government over the last five years, but also the introduction of m-government services (using mobile phone technology).

5.1.8. Maintaining the Register

The creation of the registration database is critical to the ongoing compliance functions of the tax administration. This can only be effective, however, if the registry is accurately maintained on a timely basis. Given that the aim of the registry is to provide the administration with an accurate list of taxpayers, where those taxpayers are located, and whether those taxpayers are active, it is essential that mechanisms are in place to ensure that this aim is achieved at any time. The tax registry is constantly dynamic as new taxpayers come into being, taxpayers cease operations, taxpayers' particulars – name, address, contacts – change, entities change through mergers and acquisitions, etc. Unless the administration keeps on top of these changes, it will lose its ability to identify the active taxpayer population.

Perhaps one of the greatest challenges for the tax administration is to manage the process of how and when it receives notifications of changes to the registry. One of the simplest and most effective methods is through legislation and/or regulation, where taxpayers are obligated to notify the administration of changes to registration particulars, for example, within 15 days of the change. However, this method is likely to disappoint if the tax administration does not design and implement a fixed penalty regime for failure to comply.

It is equally important to have a formal internal mechanism in place to detect and report changes to the registry. Indeed, many changes will be discovered by other functions of the administration. For example, an auditor might note a change while trying to fix an appointment to visit a taxpayer, or otherwise during an audit. Likewise, collections might note a change while trying to contact a taxpayer about an overdue liability, while pursuing stop-filers, or while trying to obtain an outstanding return, and so on. Therefore, it becomes incumbent on the function that discovers a change in a taxpayer's particulars to notify the registration section for prompt correction.

⁵ OECD (January 2009), p. 166.

Box 5.1. Maintaining the taxpayer register in Bosnia and Herzegovina⁶

USAID's Tax Administration Modernization Project in Bosnia and Herzegovina (2001-2006), with assistance from the U.S. Treasury, focused in 2002-2003 on setting up of new taxpayer registration systems. Prior to this, taxpayer registries were out of date, inconsistent, and contained entries for defunct taxpayers and "ghost" taxpayers to whom real traders would book transactions in order to avoid tax liability. The project developed automated taxpayer registries with harmonized administrative procedures and a standardized database across the three entities of Bosnia and Herzegovina, and provided new forms, educational materials, and manuals for registration. The systems enabled data sharing between the entities for the first time, providing an effective tool for fraud abatement. The tax administrations in the three entities simultaneously launched campaigns to clean up taxpayer registries and to assign unique taxpayer identification numbers. In Republika Srpska, registered businesses grew by 35 percent between 2002 and 2004. In the Federation – one of Bosnia and Herzegovina's entities – registered businesses almost tripled for the same period.

5.1.9. Registration/ Deregistration by the Tax Administration

The onus to register for tax and to notify the tax administration of changes which may lead to deregistration, for example, is generally placed firmly with the taxpayer. Common practice, however, shows that many taxpayers do not take this responsibility seriously⁷ – knowingly or otherwise – which means that tax administrations must have the legislative authority to compulsory register or deregister taxpayers as it deems fit.

The power to compulsory register taxpayers is used relatively frequently when the tax administration has credible information that an entity is in business and/or has exceeded a filing threshold (date or monetary). This allows the administration to get the business on its register and then apply appropriate compliance measures.

As noted above, the effective management of taxpayers will only happen when the tax register is accurate. Allowing taxpayers who have ceased trading, are deceased, or have changed legal form to remain on the register as active will seriously affect the efficiency of the administration. Unless these taxpayers are deregistered and re-categorized as 'inactive,' they will continue to be sent returns to file, identified as non-compliant, and flagged for action by audit or another function. Removing these taxpayers from the active role will get rid of the clutter in the register and permit the administration to focus on true non-compliance.

Of course, deregistration does not mean the removal of all taxpayer details from the database. All details and information on the taxpayer should remain in the system, at a minimum, for the statute of limitations duration, but changing status from active to inactive removes the taxpayer from the regular compliance activities.

⁶ Development Alternatives, Inc. (2006), p. 5.

⁷ Particularly small businesses.

5.1.10. Administration and Organization

Staffing needs to handle registration are generally fairly limited and, provided the taxpayer database is automated in some form or another, it is likely that no more than one staff member is required to process applications and maintain the register at each location open to the public. Additional staff may be necessary if the tax administration also has some sort of centralized service facility. Registration section staff normally come under the purview of the taxpayer service function, as this is where the activity best fits operationally. Clearly, there is a close correlation between registering for tax and providing education/service to new taxpayers. The provision of information on filing and payment obligations to newly registered taxpayers is a common practice and needs to be applied vigorously in countries with low levels of voluntary registrations.

5.2. Common Trends

The advent of web-based, taxpayer self-service systems has also brought about significant changes in the way registrations are handled. The days when taxpayer-inspector interaction (and approval) was required for registration and, indeed, most other functions have all but disappeared. Provided the taxpayer enters his or her data accurately, and the data are subsequently validated by the system, a taxpayer can be registered and allocated a TIN and electronic certificate in a matter of minutes. Indeed, given the pressure on governments to reduce public spending but increase revenues concurrently, administrations are focusing diminishing staff numbers more on front-line compliance activities rather than routine administrative tasks. Secure and integrated tax administration systems allow the administration to do just that.

Some significant differences remain in the ways in which highly developed and modern tax administrations operate, as compared to those in developing countries. Much of the difference could be attributed to the greater use of enhanced automation. However, one key area where the variance is noticeable is the level of authorities required in the approval process. Developing countries, in particular, remain unconvinced that the vast majority of taxpayers are voluntarily compliant, which, coupled with a fear of questionable staff integrity, leads them to prescribe numerous layers of approvals across the administrative functions, including registration. Excluding VAT, which deserves separate treatment, there is no good reason to require the approval of tax registrations before granting them. Indeed, voluntary registration gives the tax administration the benefit of knowing the identity of taxpayers and where to find them. Many advanced tax administrations no longer insist on a completed registration form with supporting evidence and will accept the taxpayer's particulars over the telephone or via email. Provided the details given pass computerized validation checks, the taxpayer is registered and allocated a TIN automatically.

Some countries do not specifically provide for a taxpayer to register formally with the tax administration. The only requirement of the taxpayer may be to file the appropriate tax return and pay any tax liability by the due dates set out in the law. This means that the first contact some tax administrations have with a taxpayer may be more than a year after the taxpayer commenced business. For example, a taxpayer may start a business on 1st January 2013 and operate for a tax year ending on

31st December 2013. With a likely minimum 3 month time limit to file a return for the period, the first 'notification' to the tax authorities will be 15 months after the business is initiated. This is not good practice, and administrations may well be forced to issue regulations in order to build an information register sufficient to permit proactive taxpayer management.

Registration is generally not regarded as one of the key 'compliance' functions of the tax administration, but, technically, it does have responsibility for the discovery and registration of 'non-filers.' A non-filer is defined as a taxpayer who has never registered for tax and, therefore, has escaped his or her tax obligations. Tax administrations must regularly conduct programs to detect those who are wholly outside the net of the authorities and take steps to bring them under their control. Identifying non-filers, assessing their tax liability, and collecting their tax due is a multi-step process involving the coordinated activity of several functional departments. Given the significant compliance aspect of this work, the non-filer activity is generally allocated to the collections or audit functions to manage, with the registration section only providing information and intelligence.⁸

Given its predominantly 'service' role, the registration function is normally a sub-section of the larger taxpayer services function. This permits smooth coordination between initial tax registration and education, providing newly registered taxpayers with information on their filing, payment, and notification obligations. At a minimum, taxpayers should be advised of their obligations, but making more guidance and assistance available contributes to a more voluntarily compliant taxpayer population.

As noted below, registries of most LAC countries are either incomplete or out of date and generally unreliable, as is the case with registries of many developing countries all over the world. With the realization that improved operations of tax administration and revenue collection greatly depend on clean and reliable taxpayer registration databases and systems, a current trend in many countries around the world is to clean registries that have been poorly designed, mishandled, or neglected. There is a wide variety of registry "woes" among tax administrations of developing countries and a few general maintenance and "cleansing" concepts, techniques, and tools are provided below:

- In the first place, the TIN should include a check digit. This digit is computed from the remaining digits of the TIN every time the TIN is entered into the system. If the system computation results in a check digit that is different than the one included in the TIN, then there is an error in the TIN entry. The inclusion of the check digit minimizes data entry errors;
- The computerized system must provide security to prevent unauthorized use of the taxpayer registration system;
- The issue of TIN numbers should be automated, rather than manual. Usually, the system must provide assignment of the next sequential TIN available to a new taxpayer;
- The TIN database structure must support the association or linking of taxpayers to other entities (partnerships, companies) via the TIN. Examples of this would be identifying partners of a partnership and owners or officers of a company. Such linking is extremely important in audit

⁸ Non-filers are discussed in Chapter 10.

selection, since much can be learned from associated information about the liabilities of an individual taxpayer;

- The system must include procedures to find TINs via alphabetic and other types of inquiry, to determine if a taxpayer is already registered and prevent issuance of duplicate TINs;
- For "cleansing," the current TIN file should be validated and updated before assignment of the unique TIN. This can be accomplished by sorting and printing the alphabetic registers by surname and then by other names, rather than by surname and TIN only. Computer programs that can assist in this and have worked in various countries look at other key data as potential fields for detecting or eliminating the possibility of two or more TINs applying to the same taxpayer (e.g., date of birth);
- As taxpayers with two or more TIN numbers are discovered, the TIN data must be consolidated under a single TIN number. The taxpayer must be informed, since only one of the TIN numbers will remain valid;
- In countries where taxpayers were registered with one or more tax departments, the taxpayer registries must be converted to a unique TIN computerized database. Experience has proven that it is best to concentrate on an initial database of only business and limited company taxpayers, since this is a much smaller database and represents a large portion of the income tax revenue. Income tax is the obvious tax to use for the building of this database, because all businesses that pay other taxes (e.g., VAT and customs duties) should also pay income tax;
- The tax administration must send notification letters to taxpayers to inform them of their unique TIN, together with taxpayer registration certificates with the taxpayer's name, address, and TIN;
- Taxpayer contact programs must be designed and mounted for stop-filers. The tax administration must secure delinquent returns or determine if the taxpayer should be de-registered because the taxpayer is deceased, bankrupt, out-of-business, etc.; and
- For inactive TINs, issued one year or longer ago to taxpayers who have never filed any tax returns, the tax administration must design contact programs to determine whether the taxpayer should be de-registered or whether delinquent tax returns should be secured.

5.3. Tax Administration Maturity

Four levels of maturity are presented below to help interested officials make self-assessments about the strengths and weaknesses of the registration function in their respective tax administrations.

Registration: Maturity Level 1

Key word: "Unaware"

- Limited registration information is recorded. Information for third-party data matching (e.g., business registry numbers) or information needed for good planning (e.g., expected turnover) is not included.
- Necessary written policies and procedures for registration staff do not exist, and staff acts independently, inconsistently, and erratically.

- Tax file numbers are issued by different entities and are not controlled by the tax administration. Taxpayers identify themselves by name and may be unaware of their assigned file number, which may change from year to year.
- There are separate registration forms and procedures for each type of tax. Registration requires visits to multiple tax offices and the approval of tax officials.
- Registration information is not properly maintained (e.g., during business reorganization or liquidation) and contains taxpayers that are no longer in operation.
- The tax administration does not use third-party information to track non-compliance.
- Registration systems are manual, with little modern technology and equipment available.

Registration: Maturity Level 2

Key word: "Unreliable"

- Some basic registration information is recorded (e.g., taxpayer name, contact, responsible parties, etc.); however, information for third-party data matching (e.g., business registry numbers) or information needed for good planning (e.g., expected turnover) is not included.
- The issuance of new file numbers is done solely by the tax administration. Taxpayers continue to identify themselves by name.
- There are separate registration forms for each type of tax, although registration procedures may be similar. Registration requires a visit to a single tax office and, still, the approval of a tax official.
- Some parts of the registration process have written instructions, but there is inconsistency in application across the tax administration's field offices.
- Registration information is not properly maintained (e.g., during business reorganization or liquidation) and contains taxpayers that are no longer in operation.
- The tax administration does not use third-party information to track non-compliance.
- Most of the registration work is still done manually, with little modern technology and equipment available. What little computerization equipment is available is supported by outdated technology.

Registration: Maturity Level 3

Key word: "Formalized"

- Almost all registration information is recorded, including information for third-party data matching (e.g., business registry numbers). However, information needed for good planning is not available (e.g., expected turnover).
- TINs are issued by the tax administration and used by taxpayers to identify themselves. TINs are not sufficiently well controlled by the tax administration to ensure uniqueness.
- Registration is integrated across taxes with a single form and a single facility to register for all tax obligations. No tax administration official approval is needed, but taxpayers still experience delays.

- Step-by-step operational procedures for the registration process are available and are consistently applied across the organization.
- Registration information is maintained through occasional ad hoc programs, but not in a timely manner. Maintenance includes both adding new registrants as well as removing taxpayers, who are no longer active. It does not include updating information upon taxpayer reorganization.
- The tax administration uses third-party information to track non-compliance, but does so in an ad hoc manner and irregularly.
- Modern technology and equipment are available for registration, but there are often ongoing maintenance issues and funds for purchase are often limited.

Registration: Maturity Level 4

Key word: "Timely and accurate"

- All necessary basic taxpayer information is recorded, including information that allows third-party data matching (e.g., business registry numbers) and information that allows for good planning (e.g., expected turnover).
- Unique TINs are issued and controlled by the tax administration and used by taxpayers to identify themselves.
- Registration is integrated across taxes with a single form and a single facility to register for all tax obligations. Registration is automated and expedited.
- Operational procedures are integrated into the IT tax administration system with as many steps as possible being automated.
- Registration information is maintained regularly and in a timely manner, not only by adding new registrants, but also by removing taxpayers who are no longer active, and by updating information upon taxpayer reorganization.
- The tax administration regularly uses third-party information to track non-compliance.

5.4. Latin America and the Caribbean

With respect to registration, countries in Latin America and the Caribbean (LAC) should be placed between the second and third level of the maturity model above. Registration in LAC is, in fact, similar to that of many countries around the world that have undertaken significant efforts to institute a formal registration process that is simple and expedited, but have yet to take steps to ensure that registration is accurate and effective and that the information collected during the registration process is appropriately used for planning and compliance.

On the one hand, taxpayer registration in LAC is formalized, with relatively simple and quick procedures. Even in Venezuela, in which starting a business is time and labor intensive, registering with the 'fiscal registry' of the tax administration and Customs only requires that the new registrant file an electronic form, which is downloadable from the tax administration's site, and the time to obtain an identification number is usually only one day. Another day may be needed to obtain a tax clearance certificate at the

municipal level.⁹ According to a recent CIAT study¹⁰, all Latin American countries assign a unique TIN (except Brazil) and, except in Uruguay, this TIN is used to record the transactions of the taxpayer with the tax administration. In addition, in all countries except Panama, taxpayers are required to report changes that would impact their registration status to the administration.

According to the World Bank's Doing Business survey¹¹, LAC countries have recently taken a number of steps to facilitate the process of starting a business – streamlining procedures by setting up a one-stop shop and making procedures simpler or faster by introducing technology – and a number of countries have made recent advances in doing so with respect to tax registration. For example, Costa Rica moved to electronic tax registration records and reduced the time to start a business considerably. Guyana streamlined the registration with the tax authorities and introduced a unique TIN system and later reduced the time needed for obtaining a TIN. Honduras improved the registration for tax purposes at its one-stop business start-up shops. Brazil 'eased' business start-up by further enhancing the electronic synchronization between federal and state tax authorities.

On the other hand, the registries of most LAC countries are either incomplete or out of date and generally unreliable. For example, CIAT's report states that a number of countries have an urgent need to cleanse the registry of a large number of taxpayers, who are registered but no longer have economic activity, and notes that the ratio of the number of registered taxpayers to the population is low – 23 percent in Latin America versus 59.2 percent in OECD. In addition, a recent article by the Inter-American Development Bank notes that countries in Latin America face low levels of registration of micro¹² and small businesses. Examples include Mexico, where nearly 70 percent of micro businesses are not registered and pay no taxes and only 63 percent of small and medium enterprises are registered, and El Salvador, where it is estimated that only 1 percent of all micro businesses and 3 percent of all other businesses are registered.¹³

5.5. Key Benchmarks and Guidelines

Questioning the taxpayer database should be one of the first steps to take when assessing the current state of a tax administration. As noted in the introduction to this chapter, an administration cannot manage its taxpayers if it does not know who they are, where they are located, and whether they are active or inactive. If the administration fails to maintain a consistently accurate taxpayer database, its compliance programs will be incomplete and ineffective. The following are some key areas where further inquiry may be warranted to test performance of the tax administration and to pinpoint areas for improvement. Although two of the four activities below are compliance in nature, it is important to include them here to highlight the absolute necessity for a clean and accurate registration database:

⁹ International Finance Corporation (n.d.), para. 10-11. This is so even though in Venezuela the federal government, the states, and municipalities all have taxing powers.

¹⁰ Inter-American Center of Tax Administrations (CIAT) et al. (2012), section 5.1.

¹¹ International Finance Corporation (2013), p. 17. Relevant report years are 2009-2012.

¹² Companies with fewer than 10 employees.

¹³ Inter-American Development Bank (2010), para. 9-10.

- The administration should be able to easily provide an accurate breakdown of total tax registrants into active/inactive categories;
- The administration should operate an institutionalized ‘stop-filer’ program.¹⁴ Such a program follows up on taxpayers who used to file tax returns but have ceased to file in a timely manner. The program must be institutionalized within the organization’s formal roles and responsibilities and not done on an ad hoc basis. This program requires an accurate taxpayer registration database as well as a return filing register;
- The administration should perform formalized ‘non-filer’ programs. Such programs, which may be ad hoc, should be initiated by the administration to discover taxpayers operating outside the tax regime and to bring them within the tax net. These are often implemented across a trade category or geographical area to ensure they are manageable; and
- Information collected during registration should be used to align the tax administration's performance metrics to its operations. For example, the tax administration's knowledge of the size and location of its active taxpayers should be used to rationalize the location and staffing of its offices.

In terms of registration, the types of benchmarks or measures that a tax administration may consider include:

- Time to complete the taxpayer registration process (assuming the taxpayer has provided an accurate and complete application form) – administrations should aim to register a taxpayer ‘while you wait’;
- Percentage increase in the tax register due to the implementation of (a number of) non-filer programs; and
- Time (number of days) to process all amendments to the register.

¹⁴ A robo –call automated system implemented in El Salvador in 2009 to call stop-filers and other taxpayers has had excellent results as described in Chapter 4.

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